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September 15, 2003

VIA HAND DELIVERY

Deborah Tate, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37219



TRA DOCKET ROOM

2003 SEP 15 PM 4:06

RECEIVED

Re: In the matter of the Petition of Kentucky Utilities Company for an Order authorizing the issuance of securities and the assumption of obligations

Dear Chairman Tate:

Enclosed you will find the original and thirteen (13) copies of the above referenced Petition from Kentucky Utilities Company and a check for \$25 for the filing fee.

Please contact me if you have any questions or need additional information.

Sincerely,

A handwritten signature in cursive script that reads "D. Billye Sanders".

D. Billye Sanders
Attorney for Kentucky Utilities Company

DBS/lmb
Enclosures

cc: Kendrick R. Riggs, Esq.
John Wade Hendrix, Esq.
Linda S. Portasik, Esq.
Russell Perkins, Esq., Consumer Advocate
and Protection Division

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN THE MATTER OF THE PETITION OF
KENTUCKY UTILITIES COMPANY
FOR AN ORDER AUTHORIZING THE
ISSUANCE OF SECURITIES AND THE
ASSUMPTION OF OBLIGATIONS

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Case No. 03-_____

PETITION

Kentucky Utilities Company ("KU" or the "Company") hereby requests, pursuant to T.C.A. § 65-4-109, that the Tennessee Regulatory Authority ("TRA" or "Authority") authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto as more fully described herein. Specifically, KU requests authority to obtain long-term debt financing from an affiliate within the E.ON AG ("E.ON") registered holding company system. In support of this Petition, KU states as follows:

1. The Company's full name is Kentucky Utilities Company. The post office address of the Company is One Quality Street, Lexington, Kentucky 40507. KU is a Kentucky and a Virginia corporation, a public utility as defined by T.C.A. § 65-4-101, and provides retail electric service to five customers in Tennessee generating total revenue of \$2,584.44 in 2002. The Company also provides retail electric services to approximately 507,000 customers in seventy-seven counties in Kentucky and five counties in southwest Virginia. A description of KU's properties is set out in Exhibit 1 to this Petition.

2. This Petition relates to the issuance of long-term debt by KU to an affiliate within E.ON's registered holding company system.¹ The new long-term debt would be used for the purposes of refunding KU's 8.55% First Mortgage Bonds, Series P, paying for certain costs of the Company's Pollution Control Program, and termination costs of the Company's Accounts Receivable Program. While the amount of the requested long-term debt represents a portion of the overall costs of these uses, the Company proposes to incur long-term debt in a limited number of tranches, that will not necessarily correspond in timing with the occurrence of the preceding uses. All of these uses are described in greater detail below.

Description Of KU's Position Within The Holding Company And The Affiliate

3. E.ON North America Inc. ("E.ON NA") is a subsidiary of E.ON. LG&E Energy Corp. ("LG&E Energy") is an indirect subsidiary of E.ON. The Company is a wholly-owned subsidiary of LG&E Energy. Fidelia Corporation ("Fidelia"), a finance company subsidiary organized in Delaware, is a subsidiary of E.ON NA. Fidelia lends money to companies in the E.ON registered holding company system and upon request of the Company would lend money to the Company for the purposes set out in this Petition.

Description Of The New Long-Term Debt

4. The Company proposes to borrow money from Fidelia in an amount not to exceed \$100 million at various times during the period ending December 31, 2004. The Company anticipates issuing fixed rate notes to Fidelia with final maturities between two and twelve years. Such borrowings would only occur if the interest rate on the loan would result in an equal or lower cost of borrowing than the Company could obtain in the capital markets on its own. All

¹ In TRA Docket No. 03-00146 by Order dated April 7, 2003, the Authority authorized the Company to incur similar long-term debt from an affiliate within the E.ON AG holding company system in an amount not to exceed \$250,000,000. The debt authorized in Docket No. 03-00146 was for purposes intended to be incurred during calendar year 2003. As set out in this Petition, the Company is requesting authority for an additional \$100,000,000 debt for purposes to be incurred through December 31, 2004.

borrowings by the Company from Fidelia would be at the lowest of: (i) E.ON's effective cost of capital; (ii) Fidelia's effective cost of capital; and (iii) the Company's effective cost of capital determined by reference to the effective cost of a direct borrowing by the Company from an independent third party for a comparable term loan that could be obtained at the time of the loan (the "Best Rate Method"). The Best Rate Method assures the Company that it will not pay more for a loan from Fidelia than it would pay in the capital markets for a similar loan. The Company's Treasury group has evaluated its capital requirements through December 31, 2004 and the appropriate sources of capital available to it (both existing and potential). The Company has determined that it is cost effective to borrow money from Fidelia through this intercompany loan facility and desires to take advantage of this opportunity.

5. The interest rate on the notes will be set at the time of issuance and would depend on the maturity of the notes. The interest rate would be the lower of (a) the average of three quotes, including underwriting costs, obtained by Fidelia from international investment banks for an unsecured bond issued by E.ON with the applicable term of the loan and (b) the lowest of three quotes, including underwriting costs, obtained by the Company from international investment banks for a first mortgage bond issued by the Company with the applicable term of the loan. This method complies with the Best Rate Method because this procedure would ensure that the rate used is at or lower than the lowest cost available to the Company from unrelated third parties.

6. The Company proposes to borrow money from Fidelia at intervals to correspond with its needs. The funds would be used for the purpose of refunding the Company's 8.55% First Mortgage Bonds, Series P, and for reducing the Company's existing and anticipated short-term debt which would otherwise increase significantly as the result of terminating the Accounts

Receivable Program as discussed herein. However, there would not be an exact matching between the incurrence of short-term debt and the issuance of long-term debt. Rather, because the Company's short-term debt is essentially fungible, it is impossible to trace whether a given dollar of short-term debt was incurred for a specific purpose. The specific projects and uses of debt cited herein therefore represent causes for the increase in short-term debt, that the Company wishes to avoid, rather than direct and traceable uses of the debt authority that the Company requests.

7. KU was previously granted authority from the Securities and Exchange Commission ("SEC") to engage in unsecured long-term loan transactions with affiliates within the E.ON holding company system pursuant to the SEC Order dated June 14, 2002 (Release No. 35-27539; File No. 70-9961 and 70-9985). KU has recently obtained authority from the SEC to engage in secured loan transactions with its affiliates. KU filed an Amended SEC Application requesting this authority, dated July 18, 2003, and the SEC's Order Authorizing Intercompany Secured Loans, dated August 15, 2003 (Release No. 35-27711; 70-9985) is attached hereto as Exhibit 2 (the August 15, 2003 SEC Order, along with the prior SEC Order, collectively the "SEC Orders"). The intercompany loans will therefore be secured as discussed below. Upon request, KU will provide to the TRA copies of all filings with the SEC and any related orders on this issue.

8. KU has obtained authority to engage in secured transactions from the SEC because of a limitation contained in its Articles of Incorporation requiring the consent of its preferred stockholders if KU's unsecured debt exceeds 25% of the sum of (a) secured debt plus (b) capital and surplus. A copy of the provisions in KU's Articles of Incorporation containing this limitation is attached as Exhibit 3. If KU were to issue the full amount of long-term debt

required herein as unsecured debt, then, in conjunction with KU's other existing and authorized unsecured debt, this limitation could be exceeded. If KU uses secured debt, this limitation will not be implicated.

9. The debt would be secured by a subordinated lien on KU's "equipment" as defined in Kentucky's Uniform Commercial Code (KRS Chapter 355) excluding such collateral that is not now subject to a lien pursuant to the Company's Trust Indenture. The intercompany debt would be subordinated to all existing and future debt issued under the Company's first mortgage bond indenture. A form of the Loan and Security Agreement evidencing the security interest with the form of Note is attached as Exhibit 4.

10. The interest rate would be determined as described in Paragraph 5 herein. As set out in Exhibit 5, intercompany loans from within the E.ON holding company system will result in equal or lower financing costs than are otherwise available. The term of the loan would range from two to twelve years as determined by the Company based on, among other things, the Company's financing needs. A note would be executed by the Company each time a loan was made by Fidelia to the Company stating the interest rate, maturity date and payment terms. Issuance expenses for the intercompany loans described herein will not exceed, in total, the sum of \$50,000. In connection with the issuance of the debt, KU may enter into one or more interest rate hedging agreements (T-bill lock, swap or similar agreement, collectively the "Hedging Facility") either with an E.ON affiliate or with a bank or financial institution. The Hedging Facility would be an interest rate agreement designed to allow the Company to lock in the underlying interest rate on the loan in advance of the closing of the loan. The Hedging Facility will set forth the specific terms under which the Company will agree to make payments, and the other terms and conditions of any rights or obligations thereunder.

11. The Company would continue to comply with the cost of money, maturity and issuance expense provisions of the general financing parameters of the SEC Orders.

Uses of Debt

Refunding KU's 8.55% First Mortgage Bonds, Series P

12. The Company proposes to use proceeds from the authority requested herein to redeem \$33,000,000 in principal amount of KU's 8.55% First Mortgage Bonds, Series P, due May 15, 2027, which are currently redeemable at 104.788% of principal amount. A copy of the redemption provisions with respect to the Company's 8.55% First Mortgage Bonds, Series P is attached hereto as Exhibit 6. The following table shows (i) the initial public offering price, (ii) proceeds to KU from the sale (after deducting underwriting discounts and commissions), and (iii) KU's expenses associated with the sale of the Series P First Mortgage Bonds:

	Public Offering Price	Proceeds	Expenses
8.55% First Mortgage Bonds Series P	\$33,000,000	\$32,711,250	\$136,992

The proceeds of the Company's First Mortgage Bonds Series P being refunded hereunder, along with an additional \$53,000,000 of 7.92% First Mortgage Bonds² were used to (A) redeem all of the Company's outstanding Series L, 9.125% First Mortgage Bonds issued in April 1974, (B) to redeem all of the Company's outstanding Series M, 9.25% First Mortgage Bonds issued in May 1976, and (C) to redeem all of the Company's outstanding Series O, 9.625% First Mortgage Bonds issued in August 1979. The proceeds of (A) and (B) above, were used to reduce the Company's short-term borrowings incurred in connection with the Company's construction program, and the proceeds of (C) were used to pay off a \$35,000,000 long-term unsecured bank note and for the repayment of additional short-term borrowings.

² The 7.92% First Mortgage Bonds are due May 15, 2007, and are not redeemable.

Cost of Pollution Control Program

13. KU's 2001 Amended Pollution Control Compliance Plan included various costs and expenditures including an additional capital project for the following facilities:

a. The addition of advanced low NOx burner systems for KU's Ghent 2 and 4 generating units.

b. The addition of Selective Catalytic Reduction ("SCR") NOx reduction technology facilities for KU's Ghent 1, 3 and 4 and Brown 3 generating units.

c. The addition of Neural Network Technology, Overfire Air Systems and Burner Modifications for KU's Brown 1 and 2, Ghent 1 and 2, Green River 3, Pineville 3 and Tyrone generating units.

KU proposes to finance in 2004 up to approximately \$46 million of its 2001 Amended Pollution Control Compliance Plan Cost, with funds obtained pursuant to this Petition.

Termination of KU's Accounts Receivable Program

14. By Orders of the Kentucky Public Service Commission ("KPSC") dated December 13, 2000 and January 16, 2001 in Case No. 2000-490 (In the matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving the Transfer of Certain Financial Assets), the KPSC approved, on a three-year trial basis, the transfer of certain customer accounts receivable to subsidiary corporations. The accounts were then subsequently sold to financial institutions, enabling the Company to accelerate cash receipts from those accounts receivable and provide working capital. Authority for these transactions (the "Accounts Receivable Program") will expire soon, creating the need to replace the working capital generated by those transfers. The Company proposes to use up to

\$50 million of the debt financing being requested herein to replace the working capital generated by the Accounts Receivable Program.

15. No contracts have been made for the disposition of any of the securities, which KU proposes to issue, or for the proceeds of such issuance.

16. KU shall, as soon as reasonably practicable after the issuance of each note referred to herein, file with the Authority a statement setting forth the date or dates of issuance of the note, the proceeds of such notes, the interest rates, costs or gains with the Hedging Facility, and all fees and expenses involved in such issuance.

17. Exhibit 7 contains a financial exhibit in support of this Petition.

18. Exhibit 8 to this Petition is a certified copy of KU's Board of Directors resolution authorizing the issuance of the notes, and the transactions related thereto as discussed in this Petition.

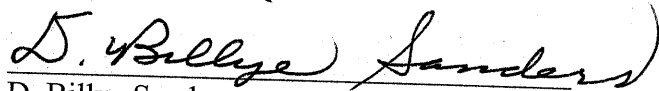
WHEREFORE, Kentucky Utilities Company respectfully requests that the Authority enter its Order authorizing it to issue securities and to execute, deliver and perform the obligations of KU under the intercompany loan agreement and the notes, as set forth in this Petition. KU further requests that the Order of the Authority specifically include provisions stating:

1. KU is authorized to issue and deliver its notes in an aggregate principal amount not to exceed \$100 million in the manner set forth in its Petition.

2. KU is authorized to execute, deliver and perform the obligations of KU under, inter alia, the loan agreement with Fidelia Corporation, the notes, and such other agreements and

documents as set out in its Petition, and to perform the transactions contemplated by such agreements.

Respectfully submitted,

A handwritten signature in cursive script, reading "D. Billye Sanders", written in dark ink.

D. Billye Sanders
Waller Lansden Dortch & Davis, PLLC
Nashville City Center
511 Union Street, Suite 2100
Nashville, TN 37219

Kendrick R. Riggs
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(502) 582-1601

Linda S. Portasik
Senior Corporate Attorney
LG&E Energy Corp.
220 West Main Street
Louisville, KY 40202

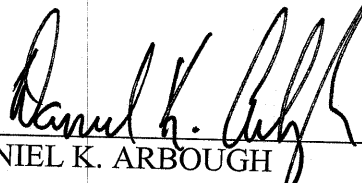
Counsel for Kentucky Utilities Company

VERIFICATION

COMMONWEALTH OF KENTUCKY }

COUNTY OF JEFFERSON }

Daniel K. Arbough being first duly sworn, deposes and says that he is Treasurer for Kentucky Utilities Company, that he has read the foregoing Petition and knows the contents thereof, and that the same is true of his own knowledge, except as to matters which are therein stated on information or belief, and that as to these matters, he believes them to be true.



DANIEL K. ARBOUGH

Subscribed and sworn before me this 12th day of September, 2003.

My Commission Expires: Aug. 31, 2007



NOTARY PUBLIC, STATE AT LARGE

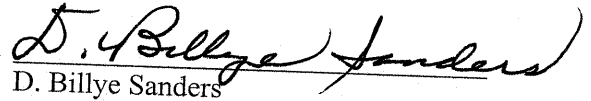
List of Exhibits

- Exhibit 1 Description of KU's properties
- Exhibit 2 SEC Order dated August 15, 2003 permitting secured intercompany debt
- Exhibit 3 Provision of KU's Articles of Incorporation limiting unsecured debt
- Exhibit 4 Form of Loan and Security Agreement
- Exhibit 5 Interest Rate Comparison
- Exhibit 6 Redemption Provisions from KU's 8.55% First Mortgage Bonds
- Exhibit 7 Financial Exhibit
- Exhibit 8 Copy of KU's Board of Directors Resolutions

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been mailed, postage prepaid to the following this 15th day of September, 2003.

Russell Perkins
Office of Consumer Advocate and Protection Division
425 Fifth Avenue North
Nashville, TN 37202-0207


D. Billye Sanders

KENTUCKY UTILITIES COMPANY

A DESCRIPTION OF APPLICANT'S PROPERTY, INCLUDING A
STATEMENT OF THE NET ORIGINAL COST OF THE PROPERTY
AND THE COST THEREOF TO APPLICANT

MARCH 31, 2003

The applicant owns and operates four coal fired steam electric generating stations having an estimated total effective capacity, with all equipment in service, of about 3,008,000 Kw; a hydroelectric generating station having an estimated total effective capability of about 24,000 Kw; and thirteen gas/oil peaking units having an estimated total effective capability of about 1,104,000 Kw.

The applicant's owned electric transmission system includes 112 substations with a total capacity of approximately 14,855,396 Kva and approximately 4,414 pole miles of lines. The electric distribution system includes 438 substations with a total capacity of approximately 5,046,307 Kva, and 15,036 pole miles of overhead lines.

Other properties include office buildings, service centers, warehouses, garages, and other structures and equipment.

The net original cost of the property and cost thereof to the applicant at March 31, 2003, was:

Original Cost	Utility Plant
Intangible Plant	\$ 19,733,897
Production Plant	1,628,306,518
Transmission Plant	457,180,744
Distribution Plant	902,807,675
General Plant	82,020,883
Transportation Plant	23,749,239
Construction Work in Progress	266,590,601
Plant Purchased or Sold	(131,273)
Total Plant at Original Cost	\$ 3,380,258,284
Less Reserve for Depreciation	1,556,388,561
Net Original Cost	\$ 1,823,869,723

[Home](#) | [Previous](#)**U.S. Securities and Exchange Commission****SECURITIES AND EXCHANGE COMMISSION**

(Release No. 35-27711; 70-9985)

E.ON AG, et al.**Order Authorizing Intercompany Secured Loans****August 15, 2003**

E.ON AG ("E.ON"), Dusseldorf, Germany, a registered holding company under the Act; Fidelia Corporation ("Fidelia"), Wilmington, Delaware, an indirect, financing subsidiary of E.ON; Louisville Gas and Electric Company ("LG&E"), Louisville, Kentucky, a public utility company under the Act and an indirect subsidiary of E.ON; and Kentucky Utilities Company ("KU"), Lexington, Kentucky, a public utility company under the Act and an indirect subsidiary of E.ON, (collectively, "Applicants"), have filed a post-effective amendment ("Application") to a previously filed application-declaration under sections 6(a), 7, 9, 12(b), 12(d), 32 and 33 of the Act and rules 53 and 54 under the Act. The Commission issued a notice of the filing of the post-effective amendment on July 18, 2003 (Holding Company Act Release Number 27697).

Applicants request authority through May 31, 2005 ("Authorization Period") for Fidelia to provide intercompany loans to LG&E and KU and for LG&E and KU to grant security for these loans to Fidelia.

By order dated June 14, 2002 (Holding Company Act Release No. 27539)¹ ("June Order"), the Commission authorized the acquisition of Powergen plc by E.ON and authorized terms of the financing of the E.ON holding company system as well as certain related transactions. E.ON owns LG&E Energy Corp. ("LG&E Energy"), a public utility holding company exempt by order under section 3(a)(1) of the Act, which in turn owns LG&E and KU. E.ON's interest in LG&E Energy is held indirectly through several intermediate holding companies. E.ON US Investments Corp., the direct parent of LG&E Energy, also owns E.ON North America Inc. ("E.ON NA"), which in turn currently owns 74.6% of Fidelia. The remaining 25.4% of Fidelia is owned by E.ON US Holding GmbH, a direct, wholly-owned subsidiary of E.ON.

In the June Order, the Commission authorized, among other things, E.ON and its subsidiaries to engage in certain financing transactions. Specifically, E.ON and E.ON NA, through Fidelia or another special purpose financing subsidiary of E.ON NA, were authorized to finance all or a portion of the capital needs of LG&E Energy and its subsidiaries, directly or through other companies in the E.ON holding company system ("E.ON Group"). The financing authority in the June Order provided that borrowings would be

unsecured and would only occur if the interest rate on the loan would result in an equal or lower cost of borrowing than the LG&E Energy Group company could obtain in a loan from E.ON or in the capital markets on its own.

E.ON is currently funding, and proposes to continue to fund, the cash requirements of LG&E and KU through intercompany loans. E.ON states that its financing strategy is to raise capital at the top holding company, E.ON, and to provide those funds to subsidiary companies through intercompany loans and/or as equity contributions. E.ON states that it is able to provide funds to LG&E and KU at a cost that is at or below the external borrowing costs of LG&E and KU.

LG&E and KU, however, have provisions in their respective articles of incorporation that restrict the amount of unsecured debt that can be outstanding. When LG&E and KU approach this limit on unsecured debt, additional debt incurred by them would have to be secured. Therefore, under the financing authority granted in the June Order, LG&E and KU will not be able to take advantage of the economic efficiencies of the intercompany loans when they have reached their unsecured debt limits. E.ON states that it is in the best interest of LG&E and KU, as well as that of the E.ON group, that the financing needs of LG&E and KU be provided through intercompany loans. Therefore, the Applicants request authority for Fidella to provide intercompany loans to LG&E and KU on a secured basis.

The Applicants request authorization for Fidella to provide intercompany loans to LG&E and KU upon the terms and subject to the conditions set forth in the June Order,² except that Applicants request that LG&E and KU may grant security for the intercompany loans.³ LG&E and KU request authorization to secure intercompany loans with a subordinated lien on certain of the personal property of each company, including "utility assets" within the meaning of the Act. The subordination provisions will provide that the E.ON group companies cannot exercise any rights or remedies against the property of LG&E and KU unless all bonds under the borrowing company's first mortgage bond indenture have been paid in full. The aggregate outstanding principal amount of intercompany loans made to LG&E and KU on a secured basis will not exceed \$275 million and \$215 million, respectively. LG&E and KU commit that the aggregate principal amount of secured intercompany loans, together with the aggregate principal amount of bonds issued under their respective first mortgage bond indenture, will not exceed the limit on bonds set forth in their first mortgage bond indenture.⁴ The Applicants further commit that neither LG&E nor KU will borrow any funds as secured intercompany loans under the authority granted, unless at the time of the incurrence of any secured intercompany loan, the following conditions are met:

- A. E.ON and the borrowing company (LG&E or KU, as the case may be) maintain common equity⁵ as a percentage of total capitalization⁶ of at least 30%, as reflected in their most recent annual or semiannual report. Applicants request that the Commission reserve jurisdiction over the making of secured intercompany loans at any time that this condition is not satisfied.
- B. All outstanding securities of the borrowing company that are rated

are rated investment grade, and all outstanding securities of E.ON that are rated are rated investment grade. For purposes of this provision, a security will be deemed to be rated investment grade if it is rated investment grade by at least one nationally recognized statistical rating organization, as defined in rule 15c3-1(c)(2)(vi)(F) under the Securities Exchange Act of 1934. Applicants request that the Commission reserve jurisdiction over the making of secured intercompany loans at any time that this condition is not satisfied.

The secured intercompany loans would be in compliance with the Best Rate Method.

Therefore, LG&E and KU would not pay more than they would pay in the capital markets for a similar loan had the borrower sought to finance its capital requirements with independent third parties. LG&E and KU would save the issuance expenses associated with the issuance of first mortgage bonds. These expenses would typically include legal fees, printing costs, trustees fees, rating agency fees and filing fees. In recent transactions, these expenses have aggregated approximately \$300,000 per issuance.

E.ON's Financing Policy

E.ON's states its financing policy is to centralize, wherever possible, all external funding at the E.ON level. This strategy, it says, allows E.ON to ensure that all funds are raised at the lowest cost due to the greater financial strength of the holding company. E.ON (currently AA-, stable outlook, from Standard & Poor's, and A1, stable outlook, from Moody's) is the strongest credit in the E.ON holding company system (the "E.ON Group"). E.ON states that lenders and bond investors see E.ON (and its finance companies under its guarantee) as the most creditworthy company in the E.ON Group. E.ON receives the best margins and other terms and conditions. Therefore, E.ON (or its finance companies under guarantee of E.ON) is the preferred entity of the E.ON Group to approach the capital markets, according to the company. E.ON will then lend the proceeds in the form of intercompany loans to those subsidiaries with demand.

Restriction in Articles of Incorporation

The articles of incorporation for LG&E and KU contain provisions for the benefit of the holders of their preferred shares that limits the amount of unsecured indebtedness which may be outstanding at any time that the company has any preferred shares outstanding. The unsecured debt limit at LG&E is 20% of the sum of (a) secured debt, plus (b) total of capital and surplus. The limit at KU is 25% of the same sum. In order to exceed these limits, LG&E and KU would need to obtain the consent of the holders of a majority of the preferred shares outstanding.

The outstanding series of preferred stock of LG&E and KU as of July 31, 2003 are shown below:

LG&E

Series	Shares Outstanding	Par Value	Current Redemption Price (\$000's)	Amount Outstanding
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5% Series	860,287	\$25.00	\$28.00	\$21,507
Auction Rate	500,000	\$100.00	\$100.00	\$50,000
\$5.875 Series	250,000	\$100.00	\$100.00	\$23,750

KU

Series	Shares Outstanding	Par Value	Current Redemption Price	Amount Outstanding (\$000's)
4.75% Series	200,000	\$100.00	\$101.00	\$20,000
6.53% Series	200,000	\$100.00 not allowed now (\$103.27 on 12/1/03)	\$20,000	

Certain of the series of preferred stock of KU are not callable at this time, or are callable only at a premium. Therefore, LG&E and KU could not be assured that they could effect a redemption of all series of preferred stock on an economic basis at this time. LG&E and KU undertake to review the redemption provisions of the preferred stock on a periodic basis to determine the economics of effecting the redemption of the preferred stock and evaluate the feasibility and appropriateness of redeeming the preferred stock. At such time that LG&E and KU have redeemed all series of preferred stock and are no longer subject to the limits set forth in their respective Articles of Incorporation on the amount of unsecured debt which may be outstanding, any intercompany loans made to LG&E and KU will be made on an unsecured basis.

The Intercompany Secured Loans

To satisfy the requirements of the Articles of Incorporation of LG&E and KU Applicants request authorization for Fidelia to make intercompany loans to LG&E and KU on a secured basis. Absent the restrictions imposed by the respective Articles of Incorporation, the Applicants state that they would not be requesting this authority.

The company states that the secured intercompany loans, as long-term debt, will provide a cost-efficient means for LG&E and KU to finance their capital needs, including payment of maturing indebtedness and financing of capital expenditures.⁷ Use of secured intercompany loans to fund the capital needs of LG&E and KU will allow LG&E and KU to use unsecured short-term debt, including loans through the money pool, to finance their respective working capital, according to the Applicants

The intercompany loans to be made by Fidelia to LG&E and KU will be made according to separate loan and security agreements between Fidelia and the borrower. The loan and security agreement documents the intercompany loan, specifying the Best Rate Method for determining the interest rate for the loans and providing for the grant of a security interest in the specified collateral. The interest rate on the notes will be set at the time of issuance, based upon the maturity of the notes. At the time of the

proposed intercompany loan, the borrowing company will obtain quotes from investment banks for a first mortgage bond issued by the company and E.ON will obtain quotes from investment banks for an unsecured bond issued by E.ON. The investment banks will be selected based upon their knowledge of the issuer and its credit profile. The interest rate applicable to the intercompany loan would be the lower of (a) the average of three quotes obtained by E.ON from investment banks for an unsecured bond issued by E.ON with the applicable term of the loan,⁸ and (b) the lowest of three quotes obtained by the borrowing company from investment banks for a first mortgage bond issued by the company with the applicable term of the loan.⁹ According to the Applicants, this ensures that the rate on the intercompany loans will be determined using the lowest of the average of actual quotes obtained based on the credit of E.ON or the credit of the borrowing company.¹⁰ This method is in compliance with the Best Rate Method, Applicants state.

The collateral consists of all of the borrower's current or acquired "equipment," as that term is defined in Kentucky's Uniform Commercial Code (KRS Chapter 355), excluding, however, any equipment that is not subject to the lien pursuant to the borrower's first mortgage bond indenture. Only property subject to the lien of the first mortgage bond indenture will be subject to the subordinated security interest. As set out in the definition section of the loan and security agreement, "equipment" has the meaning set out in the Uniform Commercial Code ("goods other than inventory, farm products, or consumer goods") and includes all of the borrower's currently owned and later acquired machinery, equipment, furniture, furnishings and all tangible personal property similar to any of the foregoing (other than inventory), together with all improvements, accessories and appurtenances and any proceeds of any of the foregoing, including insurance proceeds and condemnation awards and all books and records relating to the preceding. Motor vehicles and other property subject to a certificate of title law are not included as collateral. Also, assets such as cash and accounts receivable are not "equipment" and would not be subject to the lien.

The security interest granted in the loan and security agreement is expressly subordinated to the lien of the borrower's first mortgage bond indenture. The subordination provisions provide that Fidelia cannot exercise any rights or remedies against the property of LG&E or KU unless all bonds under the company's first mortgage bond indenture have been paid in full.

So long as LG&E and KU are not in default under their respective loan agreements, Fidelia will have no rights against LG&E and KU, except to receive payment of principal and interest on the loans when due. Even if a default existed under a loan agreement, Fidelia would have no right to pursue any remedies against the property of LG&E or KU until all of the borrower's first mortgage bonds have been paid in full, according to the Applicants.

Under the existing financing agreements of E.ON, the creditors of E.ON would have no rights against LG&E or KU as a result of the proposed transactions, the Applicants state. In any event, the creditors of E.ON could have no greater rights against LG&E and KU than those of Fidelia through the loan agreement, according to the Applicants. Therefore, so long as LG&E or KU, as the case may be, is not in default of its obligations under

the proposed loan agreement, neither Fidelia nor any creditor of E.ON would have any rights against LG&E or KU, as applicable, or their respective property, the Applicants state.

Use of Proceeds

Both LG&E and KU have significant projected capital and financing needs, including those related to the pending maturity of first mortgage bonds, the anticipated need to finance the installation of pollution control equipment and the planned acquisition of additional electric generation capacity in 2003. LG&E has \$42.6 million principal amount of bonds maturing on August 15, 2003. KU redeemed \$62 million principal amount of bonds in June 2003 with proceeds of short-term debt. KU proposes to refinance the short-term debt with secured intercompany loans. The projected capital expenditure budgets for LG&E and KU for 2003 and 2004 are approximately \$340 million and \$550 million, respectively.

In addition, the existing accounts receivable securitization programs of LG&E and KU are scheduled to be refinanced in 2004. The outstanding balances of the accounts receivables securitization programs ranged from a high of \$75 million to a low of \$20 million in the case of LG&E and from a high of \$50 million to a low of \$20 million for KU.¹¹ As of July 31, 2003, the outstanding balances under the accounts receivables securitization programs were \$58.9 million for LG&E and \$49.3 million for KU. The fluctuations in the balances are caused by two factors. First, the seasonal nature of the sales of LG&E and KU result in a fluctuation in the amount of receivables generated during the year. Sales and receivables are highest during the hot summer months and cold winter months when electric and gas use are highest. They are lowest in the shoulder months of the spring and fall. The level of receivables generated by LG&E and KU dictate the maximum amount available under the respective programs. Also, the outstanding balances at any time will reflect the funding needs of LG&E and KU, respectively. Within the limits of the respective programs, LG&E and K will reduce or increase their respective participations in the programs to meet their respective funding requirements.

The following chart summarizes the projected capital requirements of LG&E and KU for 2003-2004:

	LG&E (000's omitted)	KU (000's omitted)
Bond Maturities	\$ 42,600	\$ 62,000
Capital Expenditures for 2003 and 2004	\$340,000	\$550,000
Accounts Receivable Securitization Programs, as of July 31, 2003	\$ 58,900	\$ 49,300
TOTAL	\$441,500	\$661,300

The limit on unsecured indebtedness in the Articles of Incorporation of LG&E and KU constrains the financing options available to LG&E and KU to

finance these needs. LG&E and KU propose to finance these requirements using cash from operations and proceeds of secured intercompany loans.¹² In that regard, Applicants request authorization for LG&E and KU to obtain intercompany loans on a secured basis in an aggregate principal amount of up to \$275 million and \$215 million, respectively.

Benefits to LG&E and KU

Applicants state that the proposed transactions would ensure that LG&E and KU would not pay more for the secured intercompany loans than it would pay in the capital markets for a similar loan obtained from independent third parties. In addition, by obtaining funds through intercompany loans, LG&E and KU would save the issuance expenses incurred in connection with the issuance of first mortgage bonds, according to the Applicants. In recent transactions, such issuance expenses have aggregated approximately \$300,000 per issuance. Therefore, by utilizing secured intercompany loans, LG&E and KU can realize an overall lower cost of financing, as compared to the issuance of first mortgage bonds, the Applicants state.

Priority of Securityholders

Upon implementation of the proposed transactions, LG&E and KU will each have five general classes of securityholders, which are (in order of priority)

Class 1. First Mortgage Bonds

Class 2. Secured Intercompany Loans

Class 3. Unsecured Creditors

Class 4. Preferred Stockholders

Class 5. Common Stockholders

Class 1 consists of the holders of the first mortgage bonds and the pollution control bonds, which are secured by first mortgage bonds. Through the first mortgage bond indenture, these holders have a first priority lien on substantially all of the utility and related assets of the respective utility. This class is not harmed or disadvantaged by the proposed transaction but would benefit from the proposed transactions, according to the Applicants. To the extent that capital needs are funded by secured intercompany loans, instead of the issuance of additional first mortgage bonds, the amount of debt which will be ranked *pari passu* with the outstanding first mortgage bonds will not be increased.

Class 2 will consist of Fidelia, as lender of the secured intercompany loans. Fidelia will have a subordinated lien on the utility and related assets of LG&E and KU, subject in all respects to the prior lien of the respective first mortgage bond indenture.

Class 3 consists of the unsecured creditors of LG&E and KU. This class includes the holders of unsecured, short-term debt of LG&E and KU, which at this time is primarily through the money pool. The unsecured creditors

are in the same position whether the capital needs are financed through the issuance of first mortgage bonds or through secured intercompany loans, according to the Applicants. In either event, this indebtedness has a prior claim to the utility and related assets of LG&E and KU. However, to the extent that the cost of the secured intercompany loans is less than the cost of the issuance of first mortgage bonds, LG&E and KU, and their respective creditors, benefit from the cost savings, the Applicants state.

Class 4 consists of the holders of the outstanding preferred stock of LG&E or KU, respectively. The preferred shareholders are not harmed by the proposed transaction, the Applicants state. All debt, secured or unsecured, is prior to the claims of preferred shareholders. The preferred shareholders will continue to have the benefit of the restrictions in the articles of incorporation on the amount of unsecured debt and in the first mortgage bond indenture on issuance of bonds. Further, LG&E and KU commit that they would not incur any secured intercompany loan, unless at the time they could have incurred the debt through the issuance of first mortgage bonds under the first mortgage bond indenture.

Class 5 consists of LG&E Energy, as holder of the common stock outstanding of LG&E and KU.

Discussion

Under the Act, the Commission must consider the impact of the proposed transaction on investors and consumers. The proposed transaction is not detrimental to the investors or consumers.

A. Consumers of LG&E and KU

The June Order provides that the interest rate on intercompany loans cannot exceed E.ON's cost of borrowing and must result in an equal or lower cost of borrowing than LG&E or KU could obtain in the capital market on their own. Typically, E.ON's cost of borrowing is at or below that which is available to LG&E and/or KU in the capital markets. In no event, however, will the cost of the proposed transactions to LG&E and KU exceed the cost of borrowing that LG&E or KU could obtain in the capital markets on their own. In addition, by obtaining funds through intercompany loans, LG&E and KU would save the issuance expenses incurred in connection with the issuance of first mortgage bonds, which in recent transactions have aggregated approximately \$300,000 per issuance. As a result, the cost of borrowing is advantageous to LG&E and KU and their consumers.

B. Investors in LG&E and KU

The unaffiliated investors of LG&E and KU fall within two categories -- bondholders and preferred shareholders.¹³

As noted above, the proposed transaction will not disadvantage in any way the existing bondholders. The outstanding indebtedness for borrowed money of LG&E and KU owing to unaffiliated third party investors is in all cases secured under their respective first mortgage bond indenture.¹⁴ The first mortgage bond indentures of LG&E and KU permit subordinated liens to be placed upon the property of LG&E and KU. The subordination

provisions of the intercompany debt instruments will provide that the E.ON group companies cannot exercise any rights or remedies against the property of LG&E or KU unless all bonds under such company's first mortgage bond indenture have been paid in full. Furthermore, with the use of intercompany debt to finance the needs of LG&E and KU, the aggregate amount of first mortgage bonds will be less than if LG&E and KU issued first mortgage bonds to fund these needs. Therefore, the bondholders will be in a more secure position. Neither LG&E nor KU has outstanding any debt owing to unaffiliated third parties that is unsecured at this time.¹⁵

The preferred shareholders are not put in any worse a position than if LG&E and KU had financed their funding needs with the issuance of bonds in the capital markets, rather than through intercompany loans. As discussed above, the articles of incorporation of LG&E and KU contain a provision for the benefit of their respective preferred shareholders that limits the amount of unsecured indebtedness which may be outstanding at any time that the company has any preferred shares outstanding. The combination of the covenants in the articles of incorporation and the restrictions on issuances of bonds contained in the first mortgage bond indentures of LG&E and KU effectively protect the preferred shareholders from being too deeply subordinated. Each of LG&E and KU commits that the aggregate principal amount of the bonds issued under their respective first mortgage bond indenture and their respective secured intercompany loans will not exceed the limit on bonds set forth in such first mortgage bond indenture.

LG&E's first mortgage bond indenture does not fix an overall dollar limitation on the principal amount of first mortgage bonds that may be issued or outstanding. Additional first mortgage bonds secured by the first mortgage bond indenture may be issued by LG&E on the basis of (i) 60% of the cost or fair value, whichever is less, of permanent additions, after making the required deductions on account of retired property, (ii) retired first mortgage bonds, the retirement of which has not been otherwise used under the first mortgage bond indenture, and (iii) deposit of an equal amount of cash with the trustee under the first mortgage bond indenture, which cash may be withdrawn by applying amounts of established permanent additions equal to 166 2/3% of such cash to be withdrawn or by retirements of first mortgage bonds. No additional first mortgage bonds may be issued on basis (i), basis (ii) under specified conditions, or basis (iii), unless the earnings applicable to bond interest for a specified twelve month period are equal to at least twice the annual interest requirement on the first mortgage bonds including those about to be issued. At December 31, 2002, the amount of permanent additions which could be used for the issuance of additional first mortgage bonds exceeded \$1.7 billion. Therefore, LG&E could issue in excess of \$1 billion of additional first mortgage bonds under its first mortgage bond indenture.

KU's first mortgage bond indenture does not fix an overall dollar limitation on the principal amount of first mortgage bonds that may be issued or outstanding. Additional first mortgage bonds may be issued by KU from time to time under its first mortgage bond indenture in a principal amount equal to (i) 60% of eligible net expenditures made by KU for bondable property constructed or acquired by it and on which the first mortgage indenture is a mortgage lien, subject only to permitted encumbrances and liens and prepaid liens, (ii) the principal amount of previously authenticated first mortgage bonds of KU which have been retired or for the retirement of

which the trustee under the first mortgage bond indenture holds the necessary funds, other than certain first mortgage bonds not usable for the purpose under the terms of the first mortgage bond indenture, and (iii) the amount of money deposited with the trustee, which money may be applied to the retirement of KU's first mortgage bonds or may be withdrawn in lieu of the authentication of an equivalent principal amount of first mortgage bonds under the first mortgage bond indenture provisions referred to in clauses (i) and (ii). Net expenditures for bondable property are determined as provided in the first mortgage bond indenture. In general, bondable property means any utility plant, property or equipment owned by KU and used or useful in its utility business.

No additional first mortgage bonds may be authenticated under KU's first mortgage bond indenture as provided in clauses (i) and (iii) in the preceding paragraph, or authenticated as provided in clause (ii) of the preceding paragraph bearing a higher rate of interest than the first mortgage bonds to be retired (unless such first mortgage bonds to be retired would mature within 5 years), unless the net earnings (as determined according to the provisions of the first mortgage bond indenture) of KU for a 12-month period ending within 90 days next preceding the authentication were at least equal to twice the interest for one year on (i) all first mortgage bonds to be outstanding under the first mortgage bond indenture immediately after the authentication (other than first mortgage bonds for the retirement of which the trustee holds the necessary funds), and (ii) all other indebtedness then secured by a lien equal or prior to the lien of the first mortgage bond indenture on property of KU, with certain exceptions.

At December 31, 2002, KU had outstanding \$484.8 million of first mortgage bonds issued under the first mortgage bond indenture. The principal amount of retired first mortgage bonds available as a basis for authenticating additional first mortgage bonds aggregated \$172 million at December 31, 2002 and available net expenditures of bondable property aggregated not less than \$999.5 million at December 31, 2002. Therefore, KU could issue approximately \$772 million, in the aggregate, of additional first mortgage bonds under its first mortgage bond indenture.

Other

Rule 54 provides that in determining whether to approve certain transactions other than those involving exempt wholesale generators, as defined in section 32(a) of the Act ("EWGs"), or foreign utility companies, as defined in section 33(a) of the Act ("FUCOs"), the Commission will not consider the effect of the capitalization or earnings of any subsidiary which is an EWG or FUCO if rule 53(a), (b) and (c) are satisfied. E.ON satisfies all of the conditions of rule 53, except rule 53(a)(1).

As of December 31, 2002, E.ON's "aggregate investment," as defined in rule 53(a)(1), in EWGs and FUCOs was \$18.369 billion. This amount is within the authorization granted to E.ON by Commission order dated June 14, 2002 (Holding Co. Act Release No. 27539) ("SEC Order"). In the SEC Order, the Commission authorized E.ON to invest up to \$25 billion, plus an additional \$35 billion from proceeds of divestments, in EWGs and FUCOs and found that such an investment would not have either of the adverse effects set forth in rule 53(c). There has been no material change in the

facts or circumstances surrounding E.ON's capitalization since the SEC Order was issued.¹⁶

LG&E and KU and their respective customers will not be adversely impacted by the requested relief. In this application, the Applicants are not seeking authorization to increase the aggregate amount of indebtedness to be incurred by LG&E and KU, but rather seek authorization for an alternative source of financing to fund the respective capital needs of LG&E and KU. The application of the Best Rate Method will ensure that the cost of the proposed financings will not exceed the rate that the borrowing company could obtain in the capital markets on its own.

E.ON currently complies with, and will comply with, the record-keeping requirements of rule 53(a)(2), the limitation under rule 53(a)(3) on the use of the E.ON's system's domestic public-utility company personnel to render services to EWGs and FUCOs, and the requirements of rule 53(a)(4) concerning the submission of copies of certain filings under the Act to retail regulatory commissions. Further, none of the circumstances described in Rule 53(b) has occurred or is continuing.

The fees and commissions to be incurred in connection with the proposed transactions are expected to be \$25,000 or less, not including fees, commissions and expenses incurred in connection with the issuance and sale of the securities.

LG&E is subject to regulation by the Kentucky Public Service Commission (the "Kentucky Commission"). KU is subject to regulation by the Kentucky Commission, the Virginia State Corporation Commission (the "Virginia Commission") and the Tennessee Regulatory Authority (the "Tennessee Commission" and, together with the Kentucky Commission and the Virginia Commission, the "State Commissions"). All three State Commissions must approve the issuance of long-term debt. The Virginia Commission must approve affiliate transactions involving utilities. By an order issued on April 14, 2003, as clarified in an order dated April 30, 2003, the Kentucky Commission authorized LG&E to obtain up to \$300 million in secured intercompany loans from Fidelity. By an order issued on April 14, 2003, as clarified in an order dated April 30, 2003, the Kentucky Commission authorized KU to obtain up to \$250 million in secured intercompany loans from Fidelity. The Virginia Commission authorized the issuance by KU of up to \$250 million of secured long-term debt to its affiliate, Fidelity, in an order dated April 10, 2003. Similarly, on April 7, 2003, the Tennessee Commission authorized KU to borrow from Fidelity up to \$250 million on a secured basis. No other commission has jurisdiction over the transactions proposed.

Due notice of the filing of the Application has been given in the manner prescribed by rule 23 under the Act, and no hearing has been requested of or ordered by the Commission. Based on the facts in the record, the Commission finds that the applicable standards of the Act are satisfied and that no adverse findings are necessary.

IT IS ORDERED, under the applicable provisions of the Act and the rules under the Act, that the Application, as amended, be granted and permitted to become effective immediately, subject to the terms and conditions prescribed in rule 24 under the Act.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland
Deputy Secretary

¹ The June Order granted authority requested in S.E.C. Filing 70-9961 ("Acquisition Filing") and 70-9985 ("Original Financing Filing"). The financing portions of the June Order were amended by order dated February 21, 2003 (Holding Company Act Release No. 27654), which approved the transfer of Powergen US Investment Corp. from the Powerge chain of companies to E.ON US Holding GmbH.

² The financing authority granted in the June Order requires that all borrowings by LG&E Energy and its subsidiary companies (the "LG&E Energy Group") from an associate company be at the lowest of: (i) E.ON's effective cost of capital; (ii) the lending associate's effective cost of capital (if lower than E.ON's effective cost of capital); and (iii) the borrowing LG&E Energy Group company's effective cost of capital determined by reference to the effective cost of a direct borrowing by the company from a nonassociate for a comparable term loan that could be entered into at that time (the "Best Rate Method"). E.ON states that the Best Rate Method assures that an LG&E Energy Group company that elects to obtain debt financing from an associate company would not pay more for that financing than it would pay in the capital markets for a similar loan had the borrower sought to finance its capital requirements with independent third parties.

³ LG&E and KU are currently participants in a utility money pool, through which each company may borrow funds on an unsecured basis. The operation of the utility money pool would not be affected by this proposal, and money pool transactions would remain unsecured.

⁴ Currently, LG&E and KU have sufficient capacity under their respective first mortgage bond indenture to issue first mortgage bonds, or alternatively to incur secured intercompany loans, in the amount of the authorization requested.

⁵ Common stock equity includes common stock (i.e., amounts received equal to par or stated value of the common stock), additional paid in capital, retained earnings and minority interests.

⁶ Common stock to total capitalization ratio is calculated as follows: common stock equity/(common stock equity + preferred stock + gross debt). Gross debt is the sum of long-term debt, short-term debt and current maturities.

⁷ The secured intercompany loans may also be used to finance the payments due upon termination of the accounts receivable securitization programs of LG&E and KU. The accounts receivable securitization which were scheduled to terminate at the end of July 2003, are being extended.

⁸ Typically, bond transactions are marketed within a range quoted by the dealers when a transaction is launched and the deal is priced only after determining the market demand within the price range, the Applicants state. E.ON, however, will not necessarily be raising funds in the market to fund the intercompany loans. It is E.ON's belief that use of the lowest quote may not provide a realistic estimate of the true market clearing price. The average of three quotes should provide a good proxy for the market rate, E.ON states.

⁹ At this time, the debt of Fidelia is not rated. Therefore, the interest cost of any debt that would be issued by Fidelia to unaffiliated third parties would not be competitive with the rates available to E.ON, LG&E or KU. If in the future Fidelia is able to obtain funds in the capital markets on competitive terms, quotes will also be obtained in a similar manner for debt to be issued by Fidelia.

¹⁰ If Fidelia is unwilling to provide funds at this rate, LG&E or KU will not access funds through secured intercompany loans.

¹¹ The outstanding balance of the accounts receivable program of LG&E reached a high of \$75 million in February - March, 2001 and in January - March, 2003 and dropped to a low of \$20 million in April - June, 2002. The outstanding balance of the accounts receivable program of KU reached a high of \$50 million in March, 2001 and dropped to a low of \$20 million in March - June, 2002.

¹² A portion of these capital requirements may be funded with unsecured, short-term debt on an interim basis, until permanent funding is obtained.

¹³ All the issued and outstanding common stock of LG&E and KU is held legally and beneficially by LG&E Energy.

¹⁴ LG&E and KU have outstanding accounts receivable securitization programs under which they have sold interests in their accounts receivable to unaffiliated third parties. The outstanding program balances are not reflected as indebtedness on the balance sheets of LG&E and KU.

¹⁵ LG&E has undrawn lines of credit, with commitments aggregating \$160 million, with several banks. In addition, LG&E or KU may in the future obtain unsecured revolving lines of credit from banks or other financial institutions.

¹⁶ As of December 31, 2001, the most recent period for which financial statement information was evaluated for a rule 53(c) order, E.ON's consolidated capitalization consisted of 51.32% debt, 48.68% equity (on a *pro forma* basis taking into account acquisition of Powergen plc). As of March 31, 2003, E.ON's consolidated capitalization consisted of 47.7%

short- and long-term debt (including current maturities) and 52.3% common equity.

<http://www.sec.gov/divisions/investment/opur/filing/35-27711.htm>

[Home](#) | [Previous Page](#)

Modified: 08/18/2003

(c) Issue any shares of Preferred Stock, or shares of any stock ranking on a parity with the Preferred Stock, or any securities convertible into shares of such stock, *other than* in exchange for, or for the purpose of effecting the redemption or other retirement of, shares of Preferred Stock, or of any stock ranking prior thereto or on a parity therewith, or both, at the time outstanding having an aggregate amount of par or stated value of not less than the aggregate amount of par or stated value of the shares to be issued, unless

(i) the net income of the corporation (determined in accordance with generally accepted accounting principles) plus all amounts representing interest charges and all amounts for or in respect of taxes based on or measured by income shall, for a period of twelve consecutive calendar months within the fifteen calendar months next preceding the issue of such shares, have been at least one and one-half (1½) times the sum of (x) the interest for one year, adjusted by provision for amortization of debt discount and expense or of premium, as the case may be, on all funded indebtedness and notes payable of the corporation maturing more than twelve months after the date of issue of such shares or convertible securities which shall be outstanding at the date of the issue of said shares or convertible securities, and (y) an amount equal to the dividend requirement for one year on all shares of the Preferred Stock of all series and on all other shares of stock, if any, ranking prior to or on a parity with the Preferred Stock, which shall be outstanding after the issue of the shares or convertible securities proposed to be issued; and

(ii) the capital represented by the Common Stock plus the surplus accounts of the corporation shall be not less than the aggregate amount payable on the involuntary dissolution, liquidation or winding up of the corporation, in respect of all shares of the Preferred Stock of all series and all shares of stock, if any, ranking prior thereto, or on a parity therewith, which shall be outstanding after the issue of the shares or convertible securities proposed to be issued.

No consent of the holders of the Preferred Stock shall be required in respect of any transaction enumerated in this paragraph (5) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preferred Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(6) So long as any shares of the Preferred Stock of any series are outstanding, the corporation [except as otherwise provided in the last sentence of this paragraph (6)] shall not, without the affirmative vote of the record holders of shares of the Preferred Stock of all series at the time outstanding having in the aggregate a number of votes, calculated as provided in paragraph (2) of Division IV, at least equal to a majority of the total number of votes, as so calculated, possessed by all such holders:

(a) Issue or assume any unsecured indebtedness (as hereinafter defined) for any purpose, *other than* the refunding of secured or unsecured indebtedness theretofore created or assumed by the corporation and then outstanding or the retiring, by redemption or otherwise, of shares of the Preferred Stock or shares of any stock ranking prior thereto or on a parity therewith, if immediately after such issue or assumption the total principal amount of all unsecured indebtedness issued or assumed by the corporation and then outstanding would exceed twenty-five per centum (25%) of the aggregate of (i) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the corporation and then outstanding and (ii) the total of the capital and surplus of the corporation, as then recorded on its books; or

(b) Merge or consolidate with any other corporation or corporations, or sell or lease all or substantially all of the assets of the corporation, unless such merger, consolidation or sale or lease or the issue or assumption of all securities to be issued or assumed in connection therewith shall have been ordered, approved or permitted by all regulatory bodies, federal and state, then having jurisdiction in the premises.

"Unsecured indebtedness" as the term is used in this paragraph (6) shall mean all unsecured notes, debentures or other securities representing unsecured indebtedness (whether having a single maturity.

serial maturities or sinking fund or other similar periodic principal or debt retirement payments) which have a final maturity date, determined as of the date of issuance or assumption thereof by the corporation, of less than three years. No consent of the holders of the Preferred Stock shall be required in respect to any transaction enumerated in this paragraph (6) if, at or prior to the time when such transaction is to take effect, provision is made for the redemption or other retirement of all shares of the Preferred Stock at the time outstanding, the affirmative vote of which would otherwise be required hereunder.

(7) No provision contained in the foregoing paragraphs (5) and (6) is intended or shall be construed to relieve the corporation from compliance with any applicable statutory provision requiring the vote or consent of a greater number of the holders of the outstanding shares of the Preferred Stock.

(8) So long as any shares of the Preferred Stock are outstanding, the corporation shall not pay any dividends on its Common Stock (other than dividends payable in Common Stock) or make any distribution on or purchase or otherwise acquire for value any of its Common Stock (such such payment, distribution, purchase and/or acquisition being herein referred to as a "Common Stock dividend"), except to the extent permitted by the following provisions of this paragraph (8):

(a) No Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration of such Common Stock dividend, would in the aggregate exceed fifty per centum (50%) of the net income of the corporation available for dividends on its Common Stock for the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend, if at the end of such calendar month the ratio (herein referred to as the "capitalization ratio") of the Common Stock equity (as hereinafter defined) of the corporation, to the total capital (as hereinafter defined) of the corporation shall be less than twenty per centum (20%).

(b) If such capitalization ratio, determined as aforesaid, shall be twenty per centum (20%) or more, but less than twenty-five per centum (25%), no Common Stock dividend shall be declared or paid in an amount which, together with all other Common Stock dividends declared in the year ending on (and including) the date of the declaration such Common Stock dividend, would exceed seventy-five per centum (75%) of the net income of the corporation available for dividends on its Common Stock for the twelve consecutive calendar months ending on the last day of the calendar month next preceding the declaration of such Common Stock dividend.

(c) If such capitalization ratio, determined as aforesaid, shall be twenty-five per centum (25%) or more, no Common Stock dividend shall be declared or paid which would reduce such capitalization ratio to less than twenty-five per centum (25%), except to the extent permitted by the next preceding paragraphs (a) and (b) hereof.

"Common Stock equity," as that term is used in this paragraph, shall consist of the sum of (1) the capital represented by the issued and outstanding shares of Common Stock (including premiums on Common Stock) and (2) the surplus accounts of the corporation, less (i) any known, or estimated if not known, excess of the value, as recorded on the corporation's books, over the original cost, of used and useful utility plant and other property, unless (a) such excess is being amortized or provided for by reserves, or (b) such excess has been held, by final order of a court having jurisdiction or of the regulatory bodies having jurisdiction, to constitute an asset which need not be amortized or provided for by reserves, and (ii) any excess of the aggregate amount payable on the involuntary dissolution, liquidation, or winding up of the corporation, in respect of its outstanding shares of preference stocks of all classes over the aggregate par value of, or if without par value over the capital represented by, such preference stocks unless such excess is being amortized or provided for by reserves, and (iii) any items such as debt discount, premium and expense, capital stock discount and expense and similar items, classified as assets on the balance sheet of the corporation, unless such items are being amortized or provided for by reserves. The "total capital of the corporation" shall consist of the sum of (i) the principal amount of all

LOAN AND SECURITY AGREEMENT

Dated as of _____, 2003

between

[LOUISVILLE GAS AND ELECTRIC COMPANY]

[KENTUCKY UTILITIES COMPANY]

and

FIDELIA CORPORATION

TABLE OF CONTENTS

1.	DEFINITIONS.....	1
1.1	General Terms.....	1
1.2	Accounting Terms.....	3
1.3	Others Terms Defined in the Code	3
1.4	Computation of Time Periods.....	3
1.5	Headings and References.....	3
2.	TERM LOANS	3
2.1	Loans.....	3
2.2	Request for Purchase.....	3
2.3	Interest.....	4
2.4	Notes	4
2.5	Closings.....	4
2.6	Payments	4
2.7	Term of This Agreement.....	5
3.	CONDITIONS OF ADVANCES	5
3.1	Documents	5
3.2	No Default.....	5
3.3	Reaffirmation of Representations and Warranties.....	5
4.	COLLATERAL	6
4.1	Security Interest	6
4.2	Appointment of the Lender as the Borrower's Attorney-in-Fact.....	6
4.3	Preservation of Collateral and Perfection of Security Interests	6
4.4	Reasonable Care.....	6
4.5	Termination of Security Interest and Liens	6
5.	REPRESENTATIONS AND WARRANTIES.....	7
5.1	Existence.....	7
5.2	Authority	7
5.3	Binding Effect.....	7
5.4	Financial Statements	7
5.5	Collateral.....	7
5.6	Chief Executive Office Jurisdiction of Incorporation.....	7
5.7	Other Corporate Names	8
5.8	Margin Security	8
5.9	Survival of Warranties	8
5.10	Compliance with Laws and Regulations.....	8
6.	COVENANTS	8
6.1	Financial Statements; Notices; Reports	8
6.2	Books, Records and Inspections	9
6.3	Conduct of Business	9
7.	EVENTS OF DEFAULT, RIGHTS AND REMEDIES OF LENDER.....	9
7.1	Events of Default	9

TABLE OF CONTENTS (continued)

7.2	Rights and Remedies Generally.....	10
7.3	Waiver of Demand.....	10
7.4	Marshalling; Payments Set Aside.....	10
8.	SUBORDINATION.....	11
8.1	Agreement to Subordinate	11
8.2	Administration of Collateral	11
8.3	Delivery of Proceeds of Collateral.....	11
8.4	Agreement Not to Contest	12
8.5	Release of Collateral	12
8.6	Release of Security Interest	12
8.7	Obligations under this Agreement Not Affected	12
8.8	Bankruptcy	12
8.9	Third Party Beneficiary.....	12
9.	MISCELLANEOUS	13
9.1	Amendments and Waivers	13
9.2	Severability	13
9.3	Notices	13
9.4	Counterparts.....	13
9.5	Prior Agreements	13
9.6	Successors and Assigns.....	13
9.7	CHOICE OF LAW	14

EXHIBITS

EXHIBIT A — Form of Note

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT, dated as of _____, 2003 (this "Agreement"), is made between [LOUISVILLE GAS AND ELECTRIC COMPANY] [KENTUCKY UTILITIES COMPANY], a Kentucky [and Virginia] corporation, as borrower (the "Borrower"), and FIDELIA CORPORATION, a Delaware corporation, as lender (the "Lender").

WITNESSETH:

WHEREAS, the Borrower has requested that the Lender provide the Borrower with term loans;

WHEREAS, to induce the Lender to make such term loans available to the Borrower, the Borrower has agreed to secure its obligations to the Lender by granting the Lender a security interest in, and lien upon, the Collateral (as defined herein); and

WHEREAS, the Lender is willing to make such term loans available to the Borrower upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained in this Agreement, the Borrower and the Lender agree as follows:

1. DEFINITIONS.

1.1 General Terms. When used in this Agreement, the following terms have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Affiliate", with respect to any Person, means another Person (i) that directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with such Person, (ii) that directly or beneficially owns or holds 5% or more of any class of the voting stock of such Person or (iii) 5% or more of the voting stock (or in the case of a Person that is not a corporation, 5% or more of the equity interest) of which is owned directly or beneficially or held by such Person.

"Agreement" has the meaning set forth in the preamble.

"Authorized Officer" means at any time an individual whose signature has been certified to the Lender on behalf of the Borrower by a certificate now or hereafter executed on behalf of the Borrower and delivered to the Lender and whose authority has not been revoked prior to such time.

"Bond Trustee" means [Harris Trust and Savings Bank, as trustee] [U.S. Bank National Association, as successor trustee] under the First Mortgage Bond Indenture, or any successor trustee thereunder.

"Borrower" has the meaning set forth in the preamble.

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in Louisville, Kentucky and Wilmington, Delaware.

"Code" means the Uniform Commercial Code of the Commonwealth of Kentucky as in effect on the Closing Date.

"Collateral" has the meaning set forth in Section 4.1.

"Default" means any event that, with lapse of time or notice or lapse of time and notice, will constitute an Event of Default if it continues uncured.

"Dollars" and the "\$" each means lawful money of the United States of America.

"Equipment" has the meaning set forth in the Code and includes, without limitation, any and all of the Borrower's now owned or hereafter acquired machinery, equipment, furniture, furnishings and all tangible personal property similar to any of the foregoing (other than Inventory), together with all improvements, accessions and appurtenances thereto and any proceeds of any of the foregoing, including insurance proceeds and condemnation awards, excluding, however, any Equipment which is not subject to a Lien now or at any time hereafter pursuant to the First Mortgage Bond Indenture.

"Event of Default" means the occurrence or existence of any one of more of the events described in Section 7.1.

"First Mortgage Bond Indenture" means the [Trust Indenture dated November 1, 1949] [Indenture of Trust dated as of May 1, 1947] from the Borrower to the Bond Trustee, and any and all supplemental indentures thereof, as further amended and supplemented from time to time.

"GAAP" means generally accepted accounting principles, as in effect in the United States from time to time.

"Governmental Authority" means any nation or government, any federal, state, local or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Lender" has the meaning set forth in the preamble.

"Liabilities" means all of the Borrower's liabilities, obligations, and indebtedness to the Lender for monetary amounts, whether now or hereafter owing, arising, due or payable under this Agreement and the Notes howsoever evidenced, created, incurred, acquired, or owing.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment, collateral deposit arrangement, security interest, encumbrance for the payment of money, lien (statutory or other), preference, right of setoff, priority or other security agreement or preferential arrangement of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement, or the interest of a lessor under a capital lease.

"Loan" has the meaning set forth in Section 2.1.

"Loan Account" has the meaning set forth in Section 2.9.

"Material Adverse Effect" means a material adverse effect upon (i) the business, assets, properties or condition (financial or otherwise), or results of operations of the Borrower, or (ii) upon the ability of the Borrower to perform or cause to be performed any of its obligations under this Agreement or the rights or remedies of the Lender under this Agreement.

"Note" has the meaning set forth in Section 2.5.

"Permitted Lien" means Liens created under or in connection with the First Mortgage Bond Indenture and Liens permitted by the First Mortgage Bond Indenture.

"Person" means any natural person, firm, enterprise, institution, corporation, association, partnership, trust, unincorporated organization, sole proprietorship, joint venture, limited liability company or Governmental Authority.

1.2 Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined in this Agreement have the meanings customarily given them in accordance with GAAP.

1.3 Others Terms Defined in the Code. All other terms contained in this Agreement (and which are not otherwise specifically defined in the Agreement) have the meanings provided by the Code to the extent the same are used or defined in the Code.

1.4 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the words "from" or "commencing on" means "from and including" and the words "to," "through," "ending on" and "until" each mean "to but excluding."

1.5 Headings and References. Section and other headings are for reference only, and shall not affect the interpretation or meaning of any provision of this Agreement. Any Section or clause references are to this Agreement, unless otherwise specified. References in this Agreement or any other agreement include this Agreement and other agreements as the same may be amended, restated, supplemented or otherwise modified from time to time pursuant to the provisions hereof or thereof. A reference to any law, statute or regulation shall mean that law, statute or regulation as it may be amended, supplemented or otherwise modified from time to time, and any successor law, statute or regulation.

2. TERM LOANS.

2.1 Loans. The Lender, at its discretion, may make available to the Borrower term loans (the "Loans") from time to time pursuant to this Agreement, upon telephonic or written communication of a borrowing request from the Borrower as provided in Section 2.2.

2.2 Request for Loans. The Borrower may from time to time make requests for Loans (each such request being a "Borrowing Notice") hereunder. Each Borrowing Notice shall (i) specify the principal amount of the Loan requested, (ii) specify the final maturity not to be less than one year from the Borrowing Date, (iii) specify the proposed date for the borrowing of

the Loan (the "Borrowing Date"), (iv) specify whether the Loan shall bear interest at a fixed rate or a floating rate, (v) specify the dates on which interest is to be paid, and (vi) specify the number of the account and the name and address of the depository institution to which the proceeds of the Loan are to be transferred on the Borrowing Date. Each Borrowing Notice may be given telephonically or in writing. Each such request for a Loan is subject to acceptance by the Lender, in its sole discretion.

2.3 Interest.

(A) **Interest Rate.** The interest rate payable by the Borrower on any Loan shall be set at such interest rate as the Borrower and the Lender shall agree, but in no event greater than the lowest of (i) the effective cost of capital of E.ON AG, (ii) the effective cost of capital of the Lender and (iii) the Borrower's effective cost of capital determined by reference to the effective cost of a direct borrowing by the Borrower from a nonassociate for a comparable term loan that could be entered into at such time. Such interest rate may be determined as a fixed interest rate or a floating rate, as specified by the Borrower in the Borrowing Notice.

(B) **Interest Payments.** Accrued but unpaid interest on each Loan is payable in arrears on dates agreed to by the Borrower and the Lender as specified in the Borrowing Notice and upon payment in full of such Loan.

(C) **Highest Lawful Rate.** In no contingency or event whatsoever will interest charged on the Loans, however, such interest may be characterized or computed, exceed the highest rate permissible under any law which a court of competent jurisdiction, in a final determination, deems applicable to the Loans. In the event that such a court determines that the Lender has received interest under the Loans in excess of the highest rate applicable to the Loans, any such excess interest collected by the Lender is deemed to have been a repayment of principal and will be so applied.

2.4 Notes. On each Borrowing Date, the Borrower shall issue to the Lender a promissory note (the "Notes") in a principal amount equal to the principal amount of the Loan to be made on such Borrowing Date; to bear interest on the unpaid balance thereof from the date thereof at the rate per annum as determined in accordance with Section 2.3(A); and to be substantially in the form of Exhibit A attached hereto. The term "Notes" as used herein shall include each Note delivered pursuant to this Agreement and each Note delivered in substitution or exchange for any such Note.

2.5 Closings. Not later than 11:30 A.M. (New York City local time) on the Borrowing Date for any Loan, the Borrower will deliver to the Lender at the offices of the Lender, a Note dated the Borrowing Date, evidencing the Loan to be made on such Borrowing Date, against payment of the Loan proceeds by transfer of immediately available funds for credit to the Borrower's account specified in the Borrowing Notice.

2.6 Payments.

(A) **Place of Payments.** The Borrower will make each payment under this Agreement and under the Notes not later than 2:00 p.m. (New York time) on the day when due to the Lender at its address set forth in Section 9.3 in immediately available funds. The Borrower's

obligations to the Lender with respect to such payments will be discharged by making such payments to the Lender under this Section 2.6.

(B) Timing of Payments. If any payment of any interest or fees owing under this Agreement falls due on a day that is not a Business Day, then such due date is extended to the next following Business Day.

(C) Optional Prepayments. On any interest payment date, and with at least three business day's prior written notice, the Borrower shall be entitled to prepay any amount of the loan outstanding, provided such payment is not less than \$1,000,000 and, provided further, the Borrower shall pay a prepayment charge equal to the present value of the difference between (i) the interest payable provided in this loan agreement and (ii) the interest payable at the prevailing interest rate at the time of prepayment, for the period from the date of prepayment through the final maturity date, which difference, if negative, shall be deemed to be zero. The present value will be determined using the prevailing interest rate at the time of the prepayment as the discount rate.

2.7 Term of This Agreement. This Agreement shall remain in full force and effect until the second Business Day after the Borrower or the Lender gives notice to the other party hereto stating that it elects to terminate this Agreement. Notwithstanding the termination of this Agreement, until all of the Loans under this Agreement have been paid in full and all financing arrangements between the Borrower and the Lender under this Agreement have been terminated, all of the Lender's rights and remedies under this Agreement survive and the Lender is entitled to retain its security interest in and to all existing and future Collateral.

3. CONDITIONS OF ADVANCES.

Notwithstanding any other provisions contained in this Agreement to the contrary, the making of each Loan provided for in this Agreement is conditioned upon the following:

3.1 Documents. The Lender has received all of the following (or the delivery of such has been waived), each duly executed, in form and substance satisfactory to the Lender, and delivered on or prior to the applicable Borrowing Date:

- (i) This Agreement, duly executed by the Borrower.
- (ii) The Note, evidencing such Loan, duly executed by the Borrower.
- (iii) UCC-1 financing statements listing the Borrower as debtor, and the Lender, as secured party, covering the Collateral.
- (iv) Certified copies of all documents evidencing any necessary corporate action, consents and governmental approvals, if any, with respect to this Agreement and the Notes.
- (v) A signature authorization certificate for the Borrower.
- (vi) Such other documents as the Lender may reasonably request.

3.2 No Default. No Default or Event of Default has occurred and is continuing.

3.3 Reaffirmation of Representations and Warranties . The representations and warranties contained in Section 5 are true and correct in all material aspects on and as of the Borrowing Date.

4. COLLATERAL.

4.1 Security Interest. To secure payment of the Liabilities and performance of its obligations under this Agreement and the Notes, the Borrower grants, mortgages, hypothecates and pledges to the Lender a continuing lien upon and security interest in all of the Borrower's right, title and interest in the Collateral, wherever located, whether now or hereafter existing, owned, licensed, leased (to the extent of the Borrower's leasehold interest in such property), consigned (to the extent of the Borrower's ownership interest in such property), arising or acquired, subject, however, in all respects to the provisions of Section 8. The "Collateral" shall consist of: (i) the Equipment; (ii) all insurance proceeds of or relating thereto, (iii) all of the Borrower's books and records relating to any of the foregoing; and (iv) all accessions and additions to, substitutions for, and replacements, products and proceeds of any of the foregoing.

4.2 Appointment of the Lender as the Borrower's Attorney-in-Fact. The Borrower irrevocably designates, makes, constitutes and appoints the Lender (and all persons designated by the Lender) as the Borrower's true and lawful attorney-in-fact, and authorizes the Lender, in the Borrower's or the Lender's name, upon the occurrence and during the continuation of an Event of Default, with respect to any item of Collateral or the proceeds of such Collateral, to do all acts and things which are necessary, in the Lender's sole discretion, to fulfill the Borrower's obligations under this Agreement.

4.3 Preservation of Collateral and Perfection of Security Interests. The Borrower will execute and deliver, or cause to be executed and delivered, to the Lender at any time or times after the date of this Agreement at the request of the Lender, all (i) financing statements or (ii) other documents (and, in each case, pay the cost of filing or recording the same in all public offices deemed necessary by the Lender), as the Lender may request, in a form satisfactory to the Lender, to perfect and keep perfected the security interest, and preserve the priority of such security interest, in the Collateral granted by the Borrower to the Lender or to otherwise protect and preserve the Collateral and the Lender's security interest in the Collateral. Should the Borrower fail to do so, the Lender is authorized to sign any such financing statements as the Borrower's agent. The Borrower further agrees that a carbon, photographic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement.

4.4 Reasonable Care. The Lender is deemed to have exercised reasonable care in the custody and preservation of any of the Collateral in its possession if it takes such action for that purpose as the Borrower requests in writing, but the Lender's failure to comply with any such request will not of itself be deemed a failure to exercise reasonable care.

4.5 Termination of Security Interest and Liens. The Lender's security interest and other liens in, on and to the Collateral terminates when all the Liabilities have been paid in full and this Agreement has been terminated, at which time the Lender will reassign and redeliver (or

cause to be reassigned and redelivered) to the Borrower, or to such Person as the Borrower designates, against receipt, such of the Collateral (if any) assigned by the Borrower to the Lender (or otherwise held by the Lender) as has not been sold or otherwise applied by the Lender under the terms of this Agreement and is still held by it under this Agreement, together with appropriate instruments of reassignment and release. Any such reassignment is without recourse upon or representation or warranty by the Lender and will be at the Borrower's cost and expense.

5. REPRESENTATIONS AND WARRANTIES.

The Borrower represents and warrants that as of the date of this Agreement and as of each Borrowing Date.

5.1 Existence. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Kentucky [and the Commonwealth of Virginia] and is duly qualified as a foreign entity and is in good standing in all jurisdictions where the nature and extent of the business transacted by it or the ownership of its assets makes such qualification necessary, except for those jurisdictions in which the failure so to qualify or to be in good standing would not have a Material Adverse Effect.

5.2 Authority. The execution and delivery by the Borrower of this Agreement and the Notes and the performance of the Borrower's obligations under this Agreement and the Notes: (i) are within the Borrower's corporate powers; (ii) are duly authorized by the Borrower's board of directors or other governing body; (iii) are not in contravention of the terms of the Borrower's certificate of incorporation or bylaws or of any material indenture, agreement or undertaking to which the Borrower is a party or by which the Borrower or any of its property is bound; (iv) does not require any consent, registration or approval of any Governmental Authority, which has not been obtained; (v) does not contravene any material contractual or governmental restriction binding upon the Borrower; and (vi) will not, except as contemplated in this Agreement, result in the imposition of any Lien, claim or encumbrance upon any property of the Borrower under any existing material indenture, mortgage, deed of trust, loan or credit agreement or other material agreement or instrument to which the Borrower is a party or by which it or its property may be bound or affected.

5.3 Binding Effect. This Agreement and the Notes are the legal, valid and binding obligations of the Borrower and are enforceable against the Borrower in accordance with their respective terms.

5.4 Financial Statements. The financial statements of the Borrower filed with the Securities and Exchange Commission since December 31, 2001 are in accordance with the books and records of the Borrower and fairly present the financial condition of the Borrower at the dates of such financial statements and the results of operations for the periods indicated (subject, in the case of unaudited financial statements, to normal year-end adjustments), and such financial statements were prepared in conformity with GAAP (other than the absence of notes to such financial statements).

5.5 Collateral. Except for Permitted Liens and as otherwise provided in Section 8.5, all of the Collateral is and will continue to be owned by the Borrower free and clear of all Liens, claims and encumbrances.

5.6 Chief Executive Office Jurisdiction of Incorporation. As of the date hereof, the principal place of business and chief executive office of the Borrower is located at [220 West Main Street, Louisville, Kentucky 40202] [1 Quality Street, Lexington, Kentucky 40507] and the Borrower has been duly incorporated in the Commonwealth of Kentucky [and the Commonwealth of Virginia].

5.7 Other Corporate Names. The Borrower has not used any other corporate or fictitious names in the past five years.

5.8 Margin Security. The Borrower owns no margin security and none of the proceeds of the Loans advanced under this Agreement will be used for the purpose of purchasing or carrying any margin securities or for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase any margin securities or for any other purpose not permitted by Regulations T, U or X of the Board of Governors of the Federal Reserve System.

5.9 Survival of Warranties. All representations contained in this Agreement survive the execution and delivery of this Agreement.

5.10 Compliance with Laws and Regulations. The execution and delivery by the Borrower of this Agreement and the performance of the Borrower's obligations under this Agreement and the Notes are not in contravention of any laws. The Borrower is in compliance with all laws, orders, regulations and ordinances of all federal, foreign, state and local governmental authorities relating to the business, operations and the assets of the Borrower, including, without limitation, Regulations T, U and X of the Board of Governors of the Federal Reserve System, except for laws, orders, regulations and ordinances the violation of which are not likely to have a Material Adverse Effect.

6. COVENANTS.

The Borrower covenants and agrees that, so long as any of the Liabilities remain outstanding:

6.1 Financial Statements; Notices; Reports. The Borrower will keep, in all material respects, proper books of record and account in which entries will be made of all dealings or transactions of or in relation to the business and affairs of the Borrower, in accordance with GAAP consistently applied. The Borrower will furnish to the Lender:

(A) SEC Reports. Copies of annual reports and quarterly reports filed by the Borrower with the Securities and Exchange Commission on Forms 10-K and 10-Q, within 20 Business Days of the date of filing of such report;

(B) Default Notices. As soon as practicable (but in any event not more than two Business Days after any Authorized Officer of the Borrower obtains knowledge of the

occurrence of an event or the existence of a circumstance giving rise to a Default or an Event of Default), notice of any and all Defaults or Events of Default;

(C) Notice of Change of Name. Notice in writing to the Lender, as soon as practicable and in any event within five days after the occurrence of any change in the name, address or jurisdiction of incorporation of the Borrower or the location of the books and records of the Borrower; and

(D) Other Information. With reasonable promptness, such other business or financial data as the Lender may reasonably request.

The Lender will take reasonable efforts to keep such information, and all information acquired as a result of any inspection conducted in accordance with Section 6.2 (and any other information provided to the Lender under this Agreement), confidential, provided that the Lender may communicate such information (i) in accordance with the Borrower's written authorization, (ii) to any regulatory authority having jurisdiction over the Lender, (iii) to any other Person in connection with the exercise of the Lender's rights under this Agreement, (iv) to any Person in any litigation in which the Lender is a party or (v) to any other Person if the Lender believes in its sole discretion that disclosure is necessary in connection with any legal process or informal investigative demand, whether issued by a court, judicial or administrative or legislative body or committee or other governmental authority. Notwithstanding the foregoing, information will not be deemed to be confidential to the extent such information (a) is available in the public domain, (b) becomes available in the public domain other than as a result of unauthorized disclosure by the Lender or (c) is acquired from a Person not known by the Lender to be in breach of an obligation of secrecy to the Borrower.

6.2 Books, Records and Inspections. The Lender, or any agent or employee designated by the Lender in writing, has the right, from time to time after the date of this Agreement, to call at the Borrower's place or places of business (or any other place where the Collateral or any information relating to the Collateral is kept or located) during reasonable business hours and, without unreasonable hindrance or delay, (i) to inspect, audit, check and make copies of and extracts from the Borrower's books, records, journals, orders, receipts and any correspondence and other data relating to the Borrower's business or to any transactions between the parties thereto, (ii) to make such verification concerning the Collateral as the Lender may consider reasonable under the circumstances and (iii) to discuss the affairs, finances and business of the Borrower with any officers, employees or directors of the Borrower.

6.3 Conduct of Business. Except as contemplated in this Agreement, the Borrower will (i) maintain its existence, (ii) continue in, and limit its operations to, the same general lines of business as that presently conducted by it or other businesses reasonably related thereto and (iii) comply with all laws, orders, regulations and ordinances of any federal, foreign, state or local governmental authority, except for such laws, orders, regulations and ordinances the violation of which has no reasonable likelihood of having a Material Adverse Effect.

7. EVENTS OF DEFAULT, RIGHTS AND REMEDIES OF LENDER.

7.1 Events of Default. If any one or more of the following events ("Events of Default") occurs:

(A) the Borrower fails to pay any of the principal of or interest on the Loans, or any Commitment Fees or other amounts due hereunder, within 10 Business Days after such amounts are due (whether by scheduled maturity, acceleration or otherwise);

(B) the Borrower fails or neglects to perform, keep or observe any of its covenants, conditions or agreements contained in this Agreement;

(C) any warranty or representation now or hereafter made by the Borrower under this Agreement is untrue or incorrect in any material respect when made;

(D) a proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law or statute is filed by or against the Borrower, the Borrower makes an assignment for the benefit of creditors or the Borrower takes any requisite action to authorize any of the foregoing and, in the case of an involuntary proceeding filed against the Borrower, such proceeding is not discharged or dismissed within 30 days;

(E) the Borrower voluntarily or involuntarily dissolves or is dissolved;

(F) the Borrower becomes insolvent or fails generally to pay its debts as they become due;

(G) the Lender shall cease to have a valid, perfected security interest in all or any material portion of the Collateral; or

(H) E.ON AG shall cease to own, directly or indirectly, at least 80% of the voting capital stock of the Borrower;

then the Lender, upon notice to the Borrower, may declare the Loans to be immediately due and payable, whereupon the Loans will become immediately due and payable; *provided*, that if an Event of Default described in Section 7.1(D) exists or occurs, the Loans shall automatically, without notice of any kind, become immediately due and payable.

7.2 Rights and Remedies Generally. Subject to the subordination provisions of Section 8, upon the occurrence and continuance of an Event of Default, the Lender has, in addition to any other rights and remedies contained in this Agreement, all of the rights and remedies of a secured party under the Code or other applicable laws, all of which rights and remedies are cumulative, and none exclusive, to the extent permitted by law. Any single or partial exercise by the Lender of any right or remedy for a default or breach of any term, covenant, condition or agreement in this Agreement does not affect its rights and does not waive, alter, affect, or prejudice any other right or remedy to which the Lender may be lawfully entitled for the same default or breach.

7.3 Waiver of Demand. Demand, presentment, protest and notice of nonpayment are waived by the Borrower. The Borrower also waives the benefit of all valuation, appraisal and exemption laws.

7.4 Marshalling; Payments Set Aside. The Lender is under no obligation to marshal any assets in favor of the Borrower or any other party or against or in payment of any or all of the Liabilities. To the extent that the Borrower makes a payment or payments to the Lender or the Lender enforces its security interests or exercises its rights of setoff, and such payment or payments or the proceeds of such enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied will be revived and continue in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

8. SUBORDINATION.

8.1 Agreement to Subordinate.

(A) Terms of Subordination. The Lender and the Borrower agree that the lien granted by the Borrower hereunder to secure the Liabilities is subordinate, to the extent and in the manner set forth in this Agreement, to the lien of the First Mortgage Bond Indenture and any and all of the bonds outstanding from time to time thereunder (the "Senior Obligations"). Notwithstanding the order or time of creation, acquisition, attachment, or the order, time, or manner of perfection, or the order or time of filing or recordation of any document or instrument, or other method of perfecting a security interest or Lien on and against any of the Collateral or other assets of the Borrower, the Lender agrees that any Lien or security interest now or hereafter existing in and to the Collateral in favor of the Lender shall be and at all times remain subject and subordinate in all respects to any Lien or security interest which may now or hereafter at any time or from time to time be granted pursuant to the First Mortgage Bond Indenture on or in any or all of the Collateral as security for the Senior Obligations.

(B) Further Assurances. The Lender and the Borrower will, at the Borrower's expense and at any time and from time to time, promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary, or that the Bond Trustee may reasonably request, in order to protect any right or interest granted or purported to be granted by this Agreement or to enable the Bond Trustee to exercise and enforce its rights and remedies under this Agreement.

8.2 Administration of Collateral. The Bond Trustee shall have complete and sole discretion in, and shall not be liable to the Lender for, determining how, when and in what manner the Bond Trustee administers the Senior Obligations or forecloses or otherwise realizes upon the Collateral or exercises any rights or remedies of a secured party or lien creditor or any other rights with respect to the Collateral or otherwise takes any action with respect thereto. Without in any way limiting the foregoing, the Lender specifically acknowledges and agrees that the Bond Trustee may take such action as it deems appropriate to enforce the Senior Obligations and its Lien on and security interest in the Collateral, whether or not such action is beneficial or

detrimental to the Lender's interest. The Lender agrees that it shall not take any action to foreclose or otherwise realize upon the Collateral or exercise any rights or remedies of a secured party with respect to the Collateral, unless and until the Senior Obligations have been paid in full. Also without in any way limiting the foregoing, the Lender hereby expressly waives and releases any and all rights to have the Collateral or any part thereof marshaled upon any foreclosure, sale or other realization thereon. There shall be no obligation on the part of the Bond Trustee, at any time, to resort for payment of the Senior Obligations to any obligor thereon or any guarantor thereof, or to any other person or corporation, their properties or estates, or to resort to any other collateral or any other rights or remedies whatsoever, and the Bond Trustee shall have the right to foreclose or otherwise realize upon the Collateral upon which it has a security interest irrespective of whether or not other proceedings or steps are pending seeking resort to or realization upon or from any of the foregoing.

8.3 Delivery of Proceeds of Collateral. So long as the Senior Obligations are outstanding, the Lender will without demand or request being made upon it deliver any parts or proceeds of the Collateral which shall come into its possession, control or custody to the Bond Trustee for application as set forth in the First Mortgage Bond Indenture.

8.4 Agreement Not to Contest. The Lender hereby agrees that it shall not contest the validity, perfection, priority or enforceability of any security interest or Lien granted to the Bond Trustee pursuant to the First Mortgage Bond Indenture.

8.5 Release of Collateral. The Lender agrees that in the event the Bond Trustee shall come into the possession, custody and control of any property or assets of the Borrower as the result of any security interest granted to secure the Senior Obligations, the Bond Trustee may, to the extent the Bond Trustee does not apply the same to the payment or partial payment of the Senior Obligations, release the same to or upon the order of the Borrower, without notice, or accounting for the same, to the Lender or any other person, firm or corporation whomsoever, it being specifically understood and agreed that any property so released shall remain subject to all claims of the Lender and the Bond Trustee thereto in accordance herewith. Without limiting the foregoing, the Lender acknowledges and agrees that the Bond Trustee may from time to time in its discretion release proceeds of the Collateral in which the Bond Trustee has a security interest to the Borrower or otherwise deal with the Collateral in which the Bond Trustee has a security interest, without any notice or accounting to the Lender whatsoever.

8.6 Release of Security Interest. The Lender agrees that, whether or not a default has occurred in payment of the Loans, its Lien on the Collateral or any portion thereof shall automatically be released ipso facto as to all indebtedness secured thereby owing to the Lender if, when and to the same extent that the Bond Trustee releases its Lien on such Collateral or portion thereof. The Lender further hereby agrees to execute and deliver such further instruments and do such further acts as the Borrower or the Bond Trustee may deem necessary or proper to carry out more effectively the foregoing.

8.7 Obligations under this Agreement Not Affected. Except as specifically described in this Agreement, nothing contained in this Agreement or in any Note is intended to or impairs, as between the Borrower, its creditors other than the Bond Trustee and the Lender, the obligations of the Borrower, which are absolute and unconditional, to pay to the Lender the

Liabilities as and when they become due and payable in accordance with the terms of this Agreement, subject, however, to the terms of this Section 8. Except as specifically described in this Agreement, nothing contained in this Agreement or in any Note is intended to or affects the relative rights of the Lender and creditors of the Borrower other than the Bond Trustee.

8.8 Bankruptcy. The Lender agrees that in the event bankruptcy proceedings are instituted by or against the Borrower, the Bond Trustee may consent to the use of cash collateral or provide postpetition financing under section 364 of the United States Bankruptcy Code, 11 U.S.C. § 364, to the Borrower on such terms and conditions and in such amounts as the Bond Trustee, in its sole discretion, may decide. The Lender waives any rights it may have under applicable law to object to such use of such cash collateral or postpetition financing.

8.9 Third Party Beneficiary. The Bond Trustee shall be a third party beneficiary of this Section 8.

9. MISCELLANEOUS.

9.1 Amendments and Waivers. No modification or waiver of, nor any consent to the departure by the Borrower from, any provision of this Agreement will be effective unless it is in writing from the Lender and then such modification, waiver or consent will be effective only on the specific instance and for the purpose for which it is given.

9.2 Severability. Wherever possible, each provision of this Agreement must be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is prohibited by or invalid under applicable law, such provision is ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement.

9.3 Notices. Except as otherwise expressly provided in this Agreement, any notice required or desired to be served, given or delivered under this Agreement must be in writing and is deemed to have been validly served, given or delivered (i) three days after deposit in the United States mails, with proper postage prepaid, (ii) when sent after receipt of confirmation if sent by telecopy or other similar facsimile transmission, (iii) one Business Day after deposit with a reputable overnight courier with all charges prepaid or (iv) when delivered, if hand delivered by messenger, all of which must be properly addressed to the party to be notified and sent to the address or number indicated on the signature page hereof or to such other address or number as each party designates to the other in the manner prescribed in this Section 9.3.

9.4 Counterparts. This Agreement and any amendment or supplement to this Agreement or any waiver granted in connection with this Agreement may be executed in any number of counterparts and by the different parties on separate counterparts and each such counterpart is deemed to be an original, but all such counterparts together constitute but one and the same Agreement.

9.5 Prior Agreements. The terms and conditions set forth in this Agreement supersede all prior agreements, discussions, correspondence, memoranda and understandings (whether written or oral) of the Borrower and the Lender concerning or relating to the subject matter of this Agreement.

9.6 Successors and Assigns. This Agreement is binding upon the Borrower and the Lender and their respective successors and assigns and inures to the benefit of the Borrower and the Lender and their respective successors and permitted assigns. The Borrower has no right to assign its rights or delegate its duties under this Agreement, without the prior written consent of the Lender. The Lender has the right to assign to any Affiliate of the Lender all or a portion of its rights and obligations under this Agreement. Upon any such assignment by the Lender, (i) the assignee becomes a party to this Agreement and, to the extent of such assignment, has all rights and obligations of the Lender under this Agreement and (ii) the Lender will, to the extent of such assignment, relinquish its rights and be released from its obligations under this Agreement. The Borrower and the Lender agree to execute and deliver such documents, and to take such other actions, as the other party may reasonably request to accomplish the foregoing.

9.7 CHOICE OF LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED FOR ALL PURPOSES IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF DELAWARE.

* * * * *

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

**[LOUISVILLE GAS AND ELECTRIC
COMPANY]
[KENTUCKY UTILITIES COMPANY]**

Address: 220 West Main Street
Louisville, Kentucky 40202
Attn: Treasurer
Facsimile: 502-627-4742

By: _____
Name: _____
Title: _____

FIDELIA CORPORATION

Address: 300 Delaware Avenue
Wilmington, Delaware 19801
Attn: Executive Vice President
Facsimile: 302-417-5913

By: _____
Name: _____
Title: _____

EXHIBIT A

FORM OF NOTE

\$ _____

Date: _____

FOR VALUE RECEIVED, on _____ (the "Maturity Date") the undersigned, [LOUISVILLE GAS AND ELECTRIC COMPANY] [KENTUCKY UTILITIES COMPANY], a Kentucky [and Virginia] corporation (the "Borrower"), unconditionally promises to pay to FIDELIA CORPORATION (the "Lender"), at the Lender's office at 300 Delaware Avenue, Wilmington, Delaware 19801, or at such other place as the holder of this Note may from time to time designate in writing, in lawful money of the United States of America and immediately available funds, the principal sum of \$ _____ plus interest at rate of _____%. This Note is referred to in and was executed and delivered under the Loan and Security Agreement dated as of _____, 2003 (the "Loan Agreement") between the Borrower and the Lender, to which reference is made for a more complete statement of the terms and conditions under which the loan evidenced by this Note was made and is to be repaid. Capitalized terms used in this Note and not otherwise defined have the meanings assigned to such terms in the Loan Agreement.

Unless otherwise paid sooner under the provisions of Section 2.6(c) or 7.1 of the Loan Agreement, the principal indebtedness represented by this Note is payable on the Maturity Date. The Borrower further promises to pay interest on the outstanding principal amount of the indebtedness represented by this Note from the date of this Note until payment in full at the applicable rates determined in accordance with Section 2.3(A) of the Loan Agreement.

If payment under this Note becomes due and payable on a Business Day, the due date of such payment is extended to the next succeeding Business Day. In no contingency or event whatsoever will interest charged under this Note, however such interest may be characterized or computed, exceed the highest rate permissible under any law which a court of competent jurisdiction, in a final determination, deems applicable to this Note. In the event that such a court determines that the Lender has received interest under this Note in excess of the highest rate applicable to this Note, any such excess interest collected by the Lender is deemed to have been a repayment of principal and be so applied.

The obligations of the Borrower under this Note is secured by certain collateral as and to the extent set forth in the Loan Agreement. This Note is subject to prepayment at the option of the Borrower as provided in the Loan Agreement.

DEMAND, PRESENTMENT, PROTEST AND NOTICE OF NONPAYMENT AND PROTEST ARE WAIVED BY THE BORROWER.

This Note has been delivered and is deemed to have been made, at Wilmington, Delaware and will be interpreted in accordance with the internal law as (as opposed to conflicts of law provisions) and decisions of the State of Delaware. Whenever possible each provision of this Note will be interpreted in such manner as to be effective and valid under applicable law, but if

any provision of this Note is prohibited by or invalid under applicable law, such provision will be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note. Whenever in this Note reference is made to the Lender or the Borrower, such reference is deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note are binding upon and inure to the benefit of said successors and assigns. The Borrower's successors and assigns include, without limitation, a receiver, trustee or debtor-in-possession of or for the Borrower.

**[LOUISVILLE GAS AND ELECTRIC COMPANY]
[KENTUCKY UTILITIES COMPANY]**

By: _____
Title:

<u>Term</u>	<u>Fidelia/ E.ON AG Cost</u>	<u>Utility Direct Capital Market Financing</u>	<u>Intercompany from Fidelia</u>
5 years	3.88%	4.04%	3.88%
10 years	5.15%	5.35%	5.15%

The intercompany rate is determined using the lower of the Fidelia costs and the direct financing costs.

the Series P Bonds are registered on the applicable Record Date (the May 1 prior to May 15 and the November 1 prior to November 15 unless any Record Date is not a business day, in which event the Record Date will be the next preceding business day). The 2007 Bonds will be limited to \$53,000,000 in aggregate principal amount and the 2027 Bonds will be limited to \$33,000,000 in aggregate principal amount, respectively.

Redemption Provisions

The 2007 Bonds are not subject to redemption prior to maturity. The 2027 Bonds will be redeemable on and after May 15, 2002 at the option of the Company in whole at any time, or in part from time to time by lot, at the applicable redemption price, expressed as a percentage of the principal amount of the 2027 Bonds stated below under Redemption Price, in effect at the date fixed for redemption, together with accrued interest to such date on the 2027 Bonds to be redeemed:

<u>If Redeemed During the 12 Months Beginning May 15</u>	<u>Redemption Price</u>	<u>If Redeemed During the 12 Months Beginning May 15</u>	<u>Redemption Price</u>
2002	105.130%	2010	102.394%
2003	104.788	2011	102.052
2004	104.446	2012	101.710
2005	104.104	2013	101.368
2006	103.762	2014	101.026
2007	103.420	2015	100.684
2008	103.078	2016	100.342
2009	102.736	2017 (and thereafter) ...	100.000

Notice of Redemption; Effect

Notice of redemption of any 2027 Bonds will be mailed to the owners of 2027 Bonds not later than the 30th day prior to the redemption date at their addresses appearing on the registry books; provided, however, failure to mail such notice to any registered owners or any imperfection or defect therein shall not affect the validity of any of the proceedings for redemption with respect to 2027 Bonds for which notice was properly given. On and after the date so fixed for redemption and upon receipt by the Trustee on or before the redemption date of a sum in cash sufficient to redeem the 2027 Bonds so called for redemption, the 2027 Bonds called for redemption shall cease to bear further interest and shall cease to be secured by the Indenture.

Other Provisions

The Series P Bonds are not entitled to any sinking fund or debt retirement provision; however, the Series P Bonds are entitled to the maintenance and repair covenants described under "Description of Bonds—Maintenance and Repair" in the Prospectus. The Series P Bonds are entitled to the covenant described under the caption "Description of Bonds—Acquisition of Property Subject to a Prior Lien" in the Prospectus, as that covenant is to be amended as described in the Prospectus. The Series P Bonds are not entitled to any covenant restricting or limiting the payment of dividends on, the making of distributions with respect to or the purchase of the Company's common stock. The Series P Bonds are subject to the provisions of the Indenture relating to modifications of the Indenture in certain cases with the consent of the holders of 51% of the outstanding first mortgage bonds, as described under the caption "Description of Bonds—Modification of Indenture."

KENTUCKY UTILITIES COMPANY

FINANCIAL EXHIBIT

MARCH 31, 2003

(1) Amount and kinds of stock authorized.

80,000,000 shares of Common Stock, without par value.

5,300,000 shares of Cumulative Preferred Stock, without par value.

2,000,000 shares of Preference Stock without par value.

(2) Amount and kinds of stock issued and outstanding.

Common Stock:

37,817,878 shares issued and outstanding.

Preferred Stock

\$100 stated value, 4-3/4% cumulative, 200,000 shares issued and outstanding.

\$100 stated value, 6.53 % cumulative, 200,000 shares issued and outstanding.

(3) Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets otherwise.

Preferred Stock outstanding has cumulative provision on dividends.

(4) Brief description of each mortgage on property of applicant, giving date of execution name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of the indebtedness actually secured, together with any sinking fund provisions.

Mortgage indenture dated May 1, 1947, executed by and between the Company and U.S. Bank National Association (the "Trustee") and Richard Prokosch, as trustees and amended by the several indentures supplemental thereto. As of March 31, 2003, the amount of indebtedness secured thereby was \$484,830,000. The indenture does not fix an overall limitation on the aggregate principal amount of bonds of all series that may be issued or outstanding thereunder.

- (5) Amount of bonds authorized, and amount issued giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with an amount of interest paid thereon during the last fiscal year.

First Mortgage Bonds authorized and issued by Kentucky Utilities Company at March 31, 2003, secured by a first mortgage lien, subject only to permitted encumbrances, on all or substantially all the permanent fixed properties, other than excluded property, owned by the Company:

Series	Date of Issue	Date of Maturity	Rate of Interest	Principal Amount		Interest Expense
				Authorized	Outstanding at March 31, 2003	Year Ended March 31, 2003
P	05/15/92	05/15/07	7.92%	\$ 53,000,000	\$ 53,000,000	\$ 4,197,600
P	05/15/92	05/15/27	8.55%	33,000,000	33,000,000	2,821,500
Q	06/15/93	06/15/03	6.32%	62,000,000	62,000,000	3,918,400
R	06/01/95	06/01/25	7.55%	50,000,000	50,000,000	3,775,000
S	01/15/96	01/15/06	5.99%	36,000,000	36,000,000	2,156,400
Pollution Control Bonds						
1B	08/01/92	02/01/18	6.25%	\$ 20,930,000	\$ -	301,596
2B	08/01/92	02/01/18	6.25%	2,400,000	-	34,583
3B	08/01/92	02/01/18	6.25%	7,200,000	-	103,750
4B	08/01/92	02/01/18	6.25%	7,400,000	-	106,632
8	09/15/92	09/15/16	7.45%	96,000,000	-	4,130,175
9	12/01/93	12/01/23	5.75%	50,000,000	50,000,000	2,875,000
10	11/01/94	11/01/24	Variable	54,000,000	54,000,000	828,937
11	05/01/00	05/01/23	Variable	12,900,000	12,900,000	183,950
12	02/01/02	02/01/32	Variable	20,930,000	20,930,000	262,571
13	02/01/02	02/01/32	Variable	2,400,000	2,400,000	30,108
14	02/01/02	02/01/32	Variable	7,400,000	7,400,000	92,835
15	02/01/02	02/01/32	Variable	7,200,000	7,200,000	90,326
16	07/01/02	10/01/32	Variable	96,000,000	96,000,000	621,333
					484,830,000	26,530,696
Interest rate swap						(7,481,570)
Long term debt mark to market					16,938,624	335,368
Total					<u>\$ 501,768,624</u>	<u>\$ 19,384,494</u>

- (6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest in whose favor, together with amount of interest paid thereon during the last fiscal year.

<u>Payee</u>	<u>Date of Issue</u>	<u>Amount</u>	<u>Rate of Interest</u>	<u>Date of Maturity</u>	<u>Interest Paid Year Ended March 31, 2003</u>
LG&E Energy Corp.	12/31/00	\$ 174,530,542	Various	Various	\$ 1,244,792

- (7) Other indebtedness, giving same by classes and describing security, if any with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.

None, other than current and accrued liabilities.

- (8) Rate and amount of dividends paid during the five previous fiscal years, and amount of capital stock on which dividends were paid. (1)

Dividends on Common Stock, without par value

1997	66,559,000
1998	58,091,000
1999	73,000,000
2000	94,500,000
2001	30,500,000
2002	-
2003	-

- (1) As of May 1998, the 37,817,878 shares are all owned by LG&E Energy Corp. and all dividends declared by KU's Board of Directors are paid to LG&E Energy Corp.

Dividends on 4 3/4% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$1.1875 per share on the 200,000 outstanding shares of 4 3/4% Cumulative Preferred Stock, \$100 stated value, for a total of \$ 237,500 per quarter. On an annual basis the dividend amounted to \$4.75 per share, or \$950,000.

Dividends on 6.53% Cumulative Preferred Stock

For each of the quarters in the previous five fiscal years, the Company declared and paid dividends of \$1.6325 per share on the 200,000 outstanding shares of 6.53% Cumulative Preferred Stock, \$100 stated value, for a total of \$326,500 per quarter. On an annual basis the dividend amounted to \$6.53 per share, or \$1,306,000.

(9) Detailed Income Statement and Balance Sheet

Monthly Financial and Operating Reports are filed each month with the Commission. Our most recent mailing covered financial statements for periods through March 31, 2003. Attached are detailed Statements of Income, Balance sheets and Retained Earnings for the Company for the period ending March 31, 2003.

KENTUCKY UTILITIES COMPANY

The 2002 Form 10-K Annual Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 (combined form 10-K, separately filed by Louisville Gas and Electric Company and Kentucky Utilities Company) contains Statements of Income, Balance Sheets, Statements of Retained Earnings, Statements of Cash Flows, Statements of Capitalization, Statements of Other Comprehensive Income, Management's Discussions and Analysis of Financial Condition and Results of Operation, and Notes to Financial Statements, for Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"). The Annual Report, the FERC Form 1, and subsequent monthly reports of KU have been previously filed with the Commission.

We have also attached the succeeding three pages, detailed Statements of Income, Balance Sheets, and Statements of Retained Earnings for KU for the period ending March 31, 2003.

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
MARCH 31, 2003

	CONSOLIDATED
Electric Operating Revenues.....	896,827,758.07
Rate Refunds.....	10,369,738.00
Total Operating Revenues.....	907,197,496.07
Operating Expenses	
Fuel	258,168,542.44
Power Purchased.....	167,258,845.37
Other Operation Expenses.....	151,889,350.00
Maintenance.....	77,189,327.59
Depreciation.....	93,118,226.31
Amortization Expense.....	3,478,503.17
Regulatory Credits.....	(10,275,327.50)
Taxes	
Federal Income.....	29,524,278.03
State Income.....	8,632,485.10
Deferred Federal Income - Net.....	9,582,751.33
Deferred State Income - Net.....	2,516,250.83
Federal Income - Estimated.....	-
State Income - Estimated.....	-
Property and Other.....	15,064,244.48
Loss (Gain) from Disposition of Utility Plant.....	(277,302.50)
Loss (Gain) from Disposition of Allowances.....	305,327.50
Accretion Expense.....	-
Total Operating Expenses.....	806,175,502.15
Net Operating Income.....	101,021,993.92
Other Income Less Deductions	
Interest and Dividend Income.....	562,760.36
Other Income Less Deductions.....	10,088,920.63
AFUDC - Equity.....	246,855.10
Total Other Income Less Deductions.....	10,898,536.09
Income Before Interest Charges.....	111,920,530.01
Interest on Long Term Debt.....	19,384,493.93
Amortization of Debt Expense - Net.....	1,230,294.35
Other Interest Expenses.....	4,560,334.46
AFUDC - Borrowed Funds.....	(61,912.28)
Total Interest Charges.....	25,113,210.46
Net Inc Before Cumulative Effect of Accog Chg.....	86,807,319.55
Cumulative Effect of Accounting Chg Net of Tax.....	5,919,827.00
Net Income.....	80,887,492.55
Preferred Dividend Requirements.....	2,256,006.69
Earnings Available for Common.....	78,631,485.86

KENTUCKY UTILITIES COMPANY AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET AS OF MARCH 31, 2003

ASSETS AND OTHER DEBITS	CONSOLIDATED	LIABILITIES AND OTHER CREDITS	CONSOLIDATED
Utility Plant		Capitalization	
Utility Plant at Original Cost.....	3,380,258,283.84	Common Stock.....	308,139,977.56
Less Reserves for Depreciation & Amortization.....	1,556,388,561.35	Common Stock Expense.....	(594,394.29)
Total.....	1,823,869,722.49	Paid-In Capital.....	15,000,000.00
Investments - At Cost		Other Comprehensive Income.....	(10,462,375.00)
Nonutility Property-Less Reserve.....	896,885.36	Retained Earnings.....	506,913,655.58
Investments in Subsidiary Companies.....	7,702,947.68	Unappropriated Undistributed Subsidiary Earnings.....	6,407,147.68
Investments in KU-R.....	-	Total Common Equity.....	825,404,011.53
Ohio Valley Electric Corporation.....	250,000.00	Preferred Stock.....	40,000,000.00
Other.....	550,999.66	First Mortgage Bonds.....	422,830,000.00
Special Funds.....	5,441,625.00	Other Long-Term Debt.....	-
Total.....	14,842,457.70	Long-Term Debt Marked to Market.....	16,974,312.00
Current and Accrued Assets		Total Long-Term Debt.....	439,804,312.00
Cash.....	7,074,318.25	Total Capitalization.....	1,305,208,323.53
Special Deposits.....	102,929.26	Current and Accrued Liabilities	
Temporary Cash Investments.....	-	Advances from Associated Companies.....	-
Accounts Receivable-Less Reserve.....	39,324,187.63	Long-Term Debt Due in 1 Year.....	62,000,000.00
Notes Receivable from Assoc. Companies.....	-	Notes Payable.....	-
Notes Receivable from KU/KU-R.....	-	Notes Payable to Associated Companies.....	174,530,541.95
Accounts Receivable from Assoc Companies.....	21,375,994.53	Accounts Payable.....	63,002,283.06
Materials & Supplies-At Average Cost		Accounts Payable to Associated Companies.....	21,344,479.42
Fuel.....	43,228,606.35	Customer Deposits.....	12,078,457.64
Plant Materials & Operating Supplies.....	21,636,578.45	Taxes Accrued.....	17,888,866.35
Stores Expense.....	5,003,986.37	Interest Accrued.....	4,020,319.83
Allowance Inventory.....	63,952.96	Dividends Declared.....	188,000.00
Prepayments.....	7,085,911.99	Misc. Current & Accrued Liabilities.....	6,796,370.16
Miscellaneous Current & Accrued Assets.....	869,313.47	Total.....	361,849,318.41
Total.....	145,765,779.26	Deferred Credits and Other	
Deferred Debits and Other		Accumulated Deferred Income Taxes.....	326,469,792.85
Unamortized Debt Expense.....	4,943,727.84	Investment Tax Credit.....	7,839,613.00
Unamortized Loss on Bonds.....	9,233,795.48	Regulatory Liabilities.....	54,185,967.00
Accumulated Deferred Income Taxes.....	76,718,758.59	Customer Advances for Construction.....	1,533,591.73
Deferred Regulatory Assets.....	79,965,884.91	Asset Retirement Obligations.....	18,781,927.50
Other Deferred Debits.....	45,729,634.27	Other Deferred Credits.....	10,504,539.36
Total.....	216,591,801.09	Misc. Long-Term Liabilities.....	56,115,638.34
Total Assets and Other Debits.....	2,201,069,760.54	Misc. Long-Term Liab. Due to Assoc. Co.....	-
		Accum Provision for Post-Retirement Benefits.....	58,581,048.82
		Total.....	534,012,118.60
		Total Liabilities and Other Credits.....	2,201,069,760.54

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
MARCH 31, 2003

	Year Ended Current Month
	Total
Retained Earnings and Undistributed Earnings	Retained Earnings
Balance Beginning of Period.....	434,085,677.63
Net Income To Date.....	80,900,104.16
Adjust for Equity in Subsidiary Earnings for Year	
-EE Inc.....	(6,909,719.00)
Dividends Rec'd Current Year	
-EE Inc.....	1,057,155.67
Preferred Stock Dividends.....	(2,256,006.69)
Common Stock Dividends.....	-
Balance End of Period.....	<u>506,877,211.77</u>
Combined Retained Earnings	
Retained Earnings Beginning of Period.....	
Add Net Income.....	
Subtotal.....	
Deduct	
Dividends on Preferred Stock.....	
Dividends on Common Stock.....	
Perferred Stock Redemption Exp and Other.....	
Retained Earnings End of Period.....	

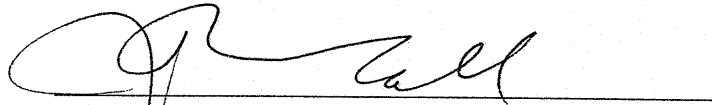
KENTUCKY UTILITIES COMPANY

The Applicant's Indenture of Mortgage or Deed of Trust dated May 1, 1947, as heretofore amended, securing Applicant's outstanding First Mortgage Bonds has heretofore been filed with the Commission. The most recent Supplemental Indenture, dated September 1, 2002, is on file with the Commission in Case No. 2002-231 (In the Matter of: Application of Kentucky Utilities Company for an Order Authorizing the Issue of Securities).

SECRETARY'S CERTIFICATE

I, John R. McCall, do hereby certify that I am the duly qualified and acting Secretary of Kentucky Utilities Company (the "Company"), a Kentucky corporation, that as Secretary, I have access to all original records of the Company and that I am authorized to make certified copies of Company records on its behalf. I further hereby certify that the attached resolution was adopted by the Board of Directors of the Company by unanimous written consent in lieu of a meeting, dated July 17, 2003, and that the attached is a full, true and correct copy of said resolutions as they appear on the records of the Company and that the same have not been altered, amended or repealed.

IN WITNESS WHEREOF, I have signed and affixed the seal of the Company this 30th day of July, 2003.

A handwritten signature in black ink, appearing to read 'J. McCall', is written over a horizontal line.

John R. McCall
Executive Vice President, General
Counsel and Secretary

**ACTION OF THE BOARD OF DIRECTORS
OF
KENTUCKY UTILITIES COMPANY
TAKEN BY WRITTEN CONSENT**

July 17, 2003

Redemption of First Mortgage Bonds, Series P

WHEREAS, Kentucky Utilities Company (the "Company") has heretofore issued its First Mortgage Bonds, Series P, \$53,000,000 in principal amount maturing May 15, 2007 and \$33,000,000 in principal amount maturing May 15, 2027, pursuant to the Indenture dated May 1, 1947, as supplemented (the "Indenture"), from the Company to U.S. Bank National Association and Richard Prokosch, as successor trustees (the "Trustees"); and

WHEREAS, according to the provisions of the Indenture, the 7.92% First Mortgage Bonds, Series P, maturing May 15, 2007, are not subject to redemption prior to maturity, and the 8.55% First Mortgage Bonds, Series P, maturing May 15, 2027, may be redeemed on and after May 15, 2002; and

WHEREAS, the Company now desires to redeem all \$33,000,000 outstanding principal amount of 8.55% First Mortgage Bonds, Series P, maturing May 15, 2027 (hereinafter referred to as the "Bonds"), at a substantial savings to the Company (the "Redemption"), and it is appropriate that action be taken to authorize such undertaking; and

WHEREAS, it has been determined that it is in the best interest of the Company for the Board of Directors to authorize the Redemption of the Bonds, and to delegate to one or more executive officers the authority to take actions related thereto in order to permit the prompt and orderly consummation of such Redemption.

NOW THEREFORE, BE IT RESOLVED, that the Company redeem, in accordance with the Company's Amended and Restated Articles of Incorporation, the Indenture, the Kentucky Business Corporation Act, as amended, and the Virginia Stock Corporation Act, as amended, all \$33,000,000 outstanding principal amount of the Bonds at a redemption price equal to 104.788% of the principal amount thereof, plus accrued interest, if any, on such Bonds to the date of the Redemption, which shall occur no later than December 31, 2003; and

FURTHER RESOLVED, that the Chief Executive Officer, President, Chief Financial Officer, each of the Executive Vice Presidents, Secretary, Treasurer and Controller of the Company (collectively, the "Authorized Officers") are, and each of them hereby is, authorized, empowered and directed for and on behalf of the Company, to (i) cause to be made a deposit with the Trustees of a sum in cash sufficient to redeem the Bonds on or before the date of the Redemption, in accordance with the provisions of the Indenture, (ii) set the date of the Redemption in accordance with the above, and (iii) cause all necessary notices

of such Redemption to be provided in accordance with the provisions of the Indenture; and

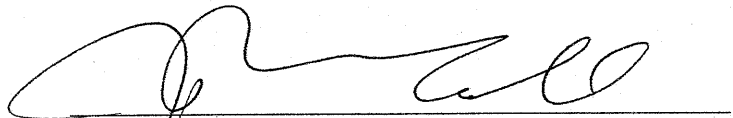
FURTHER RESOLVED, that any acts of the officers of this Company, which acts would have been authorized by the foregoing resolutions except that such acts were taken prior to the adoption of such resolutions, are hereby severally ratified, confirmed, approved and adopted as acts in the name of and on behalf of this Company; and

FURTHER RESOLVED, that each of the Authorized Officers be, and hereby is, authorized and empowered to do any and all acts and things necessary, proper or appropriate in their judgment or in the judgment of counsel of the Company, and to execute and to deliver any document, certificate or other instrument that may be necessary or appropriate, in connection with the transactions referred to above in order to carry out the foregoing resolutions.

SECRETARY'S CERTIFICATE

I, John R. McCall, do hereby certify that I am the duly qualified and acting Secretary of Kentucky Utilities Company (the "Company"), a Kentucky corporation, that as Secretary, I have access to all original records of the Company and that I am authorized to make certified copies of Company records on its behalf. I further hereby certify that the attached resolution was adopted by the Board of Directors of the Company by unanimous written consent in lieu of a meeting, dated July 17, 2003, and that the attached is a full, true and correct copy of said resolutions as they appear on the records of the Company and that the same have not been altered, amended or repealed.

IN WITNESS WHEREOF, I have signed and affixed the seal of the Company this 30th day of July, 2003.

A handwritten signature in black ink, appearing to read 'John R. McCall', is written over a horizontal line.

John R. McCall
Executive Vice President, General
Counsel and Secretary

**ACTION OF THE BOARD OF DIRECTORS
OF
KENTUCKY UTILITIES COMPANY
TAKEN BY WRITTEN CONSENT**

July 17, 2003

APPROVAL OF INTERCOMPANY LOAN FACILITIES

WHEREAS, the Company desires to enter into intercompany long-term loans with Fidelia Corporation or other affiliates of E.ON North America, Inc. (collectively, "Fidelia"), in the amount of up to \$100 million, (the "Intercompany Loan"), to enable the Company to borrow funds to be used for general corporate purposes of the Company or its subsidiaries; and

WHEREAS, pursuant to resolutions adopted on December 5, 2002, the Board of Directors previously authorized intercompany long-term loans with Fidelia in the amount of up to \$250 million, of which \$150 million remains available (the "Available Prior Intercompany Loan"); and

WHEREAS, the Company may desire to secure all or part of such Intercompany Loan and/or Available Prior Intercompany Loan with a subordinated lien on its "equipment," such lien to be subordinate to the lien of the Company's first mortgage indenture.

NOW, THEREFORE, BE IT RESOLVED, that the Company is hereby authorized and directed to proceed with the Intercompany Loan as generally described in these resolutions; and

FURTHER RESOLVED, that, subject to receipt of all required regulatory approvals, the Company is authorized to secure such Intercompany Loan and/or Available Prior Intercompany Loan with a subordinated lien on its "equipment" as generally described in these resolutions; and

FURTHER RESOLVED, that the appropriate officers of the Company be, and each of them hereby is, authorized and directed, for and on behalf of the Company to take such actions and to execute, deliver and file the Intercompany Loan and such other agreements and documents, including security documents evidencing the subordinated lien for the Intercompany Loan and/or the Available Prior Intercompany Loan, and to make changes thereto, as they shall, in their discretion, deem necessary, appropriate or advisable to consummate the transactions contemplated by these resolutions, with the taking of such actions and the execution of such agreements or documents conclusively to evidence the authorization thereof by the Board of Directors; and

FURTHER RESOLVED, that all actions heretofore or hereafter taken by any officer of the Company in connection with the transactions contemplated by these resolutions be, and they hereby are, approved, ratified and confirmed in all respects.